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Problem Analysis of the Baitul Maal wat Tamwil (BMT) in Pekanbaru

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LIST OF ABBREVIATIONS

ABSINDO	-	BMT Association throughout Indonesia
ANP	-	Analytic Network Process
BI	-	Bank of Indonesia
BMI	-	Bank Muamalat Indonesia
BMT	-	Baitul Maal Wat Tamwil
BPRS	-	Islamic Rural Bank
DPS	-	Shariah Supervisory Board
DSN	-	National Shariah Council
FGD	-	Focus Group Discussion
ICMI	-	Indonesia Muslim Intellectual Association
KOPONTREN	-	Pondok Pesantren Cooperative
KSM	-	Community Self-Supporting Group
KSP	-	Saving and Financing Cooperative
KSU	-	Multi Business Cooperative
KUD	-	Village Unit Cooperative
LPS	-	Saving Guaranty Institutes
LPSM	-	The Institute Community Self-Supporting Development
MUI	-	Indonesian Ulama Council
PHBI	-	The Project of Bank of Indonesia Relationship and Community Self-Supporting Group
PINBUK	-	Incubation Center of Small Business
PKES	-	Communication Center of Islamic Economic

PLS	- Profit Loss Sharing
RAT	- Annual Budget Meeting
SDUs	- Saving Deficit Unit
SMEs	- Small and Medium Enterprises
SOP	- Standard Operational Procedure
SSUs	- Saving Surplus Unit
ZISWAH	- Zakat, Infaq, Sadaqah, Waqah, and Hibah

CHAPTER ONE

INTRODUCTION

1.1 The Background of Study

In early Islamic history, financial institutions were neither well known nor well understood. However, the principles of exchange, barter and borrowing was already in existence, right from the days of Prophet Muhammad SAW. Financial institutions have always played a crucial role by contributing enormously towards the development and growth of modern industrial society. As business houses, financial institutions are oriented towards earning profits through the flotation of interest-bearing schemes. As a result, an entrepreneur who seeks funding from any financial institution in order to increase his business or industrial production must bear the burden of interest levied on the borrowings which may be higher than the anticipated profits. Since interest is calculated as a fixed cost in the production of goods and services, it constitutes part of the production cost, and will definitely affect the sale price of the end product. Thus, consumers will be directly affected by the interest element, and they will have to pay the higher production costs.

Financial institutions, as intermediaries between Saving-Surplus-Units (SSU) and Saving-Deficit-Units (SDU), have always played a very pivotal role in the economic development of a country. It is impossible for units, such as firms and entrepreneurs, to undertake expansion of production without the availability of adequate capital. Therefore, the entrepreneur in need of funds will be tied up with a financial institution which will lend him funds. Unfortunately, except for Islamic financial institutions, the majority of financial institutions today function under an interest-based system. Islamic financial institutions place emphasis on the financial mechanism which is through a profit and loss sharing (PLS) system, thus shielding a firm or entrepreneur from the practice of interest/usury/riba.

The institution of Baitul Maal has a role as a financial, religious and social institution which was first introduced by Prophet Muhammad SAW. This institution represented the 'treasury' and serves the financial needs of the state and society. The sources of the institution's funds are the people as well as society's funds, such as a charity, various fines and mandatory funds, as well as Zakah which is collected and distributed in the public's interest. In the present context, this institution generates many good innovations. Whereas Baitul Maal is not only considered as a religious and social institution, it is also a financial department, or the treasury of the government, the taxation department, public works and has other related functions. However, the phrase and practice of Baitul Maal in Indonesia is known as a Baitul Maal Wat Tamwil (BMT), and it has a very different role to play in society.

BMT is a small financing institution which operates using mixed concepts of "*Baitul Maal*" and "*Baitul Tamwil*" with its target focused on the small business sector (Andriani, 2005). The concept of Baitul Maal in a BMT institution is that of the role as a religious and social institution which collects funds from Zakat, Sadaqah, and Infaq, and distributes these funds to beneficiaries (e.g., Asnaf of Zakah, and other recipients). By this concept, BMT also acts as Zakah institutions (Amil). The concept of Baitul Tamwil in a BMT institution has a role as a business institution which conducts its business activity involved in trading (sale and purchase of commodities), and as a financial institution which provides savings facilities and financial products.

In fact, the concept of BMT has been in existence in Indonesia since 1992 initiated by Aries Mufti by establishing BMT Bina Insan Kamil in Central Jakarta. However, BMT was formally established in 1995 soon after the establishment of *Bank Muamalat Indonesia* (BMI) as the first Islamic Bank in Indonesia. The establishment of BMT was initiated by *Indonesian Muslim Intellectual Association* (ICMI), *Indonesia Ulama Council* (MUI) and *Bank Muamalat Indonesia* BMI. BMT has been in operation since 1995 under the supervision of *Incubation Center of Small Business* (PINBUK) (Subkhan, 2008).

Since 1995, BMT, as an alternative financial institution for the lower income groups of society has developed and grown rapidly. It has been proved by the data taken from

Incubation Center of Small Business (PINBUK) on 12 February 1998, that there were around 2000 units of BMTs established in Indonesia, but only 384 units of BMT registered in PINBUK, within a total number of investors being 79,325 people, and a total number who receive financing being 28,430 people, with the total amount of financing being IDR 11 billion (\pm MYR 31 million) (Adiwarman, 2009).

Based on data obtained from *BMT Associations throughout Indonesia* (ABSINDO) eight years later in December 2006, there were 3,500 units of BMT found to be operating in Indonesia, with total assets reaching up to IDR 2 trillion. And 4 years later in 2010, there have been 4,000 units of BMT in Indonesia achieving assets of IDR 3 trillion (\pm MYR 315 million) (Subkhan, 2008).

At present, the role of BMT as an Islamic microfinance institution has become increasingly important, particularly with respect to its positive impact on eliminating the problem of poverty in Indonesian society. It provides financial facilities to selected entrepreneurs either in the form of macro- or micro-financing. According to Subkhan (2008), there are around three million customers who have obtained micro-financing from BMTs in Indonesia. There are three main reasons why BMT has grown so rapidly:

1. The increasing demand from small entrepreneurs to obtain financing from BMT to develop their business simply because they cannot obtain a loan, or financing, from other financial institutions. In addition to the strict administration procedures, most of the financial institutions are quite uninterested when it comes to providing small loans ranging from IDR 500,000–5,000,000 (\pm MYR 150 – 1500).
2. A Muslim has the highest expectation to conduct his business activities based on Islamic principles without involving in a riba transaction. BMT provides suitable financial facilities which fulfills their hopes and expectations.
3. Success stories from some BMTs also encouraged other people to set up similar institutions. Moreover, the establishment of a BMT in Indonesia is relatively easy and not complicated. This is because establishing BMT institutions in Indonesia does not need large seed capital.

The rapid development of BMT as a microfinance institution showed that the existence of BMT is appreciated by society. Therefore, the euphoria of a growing BMT should be taken very cautiously, because of the many BMTs which were set up, not all of them could survive and operate properly. The study shows that some BMTs faced a number of problems, and either failed, ran up losses, or ended up with bankruptcy. The following table highlights the various problems faced by BMTs with respect to their continuous roles, existence, and development in Indonesia.

Table 1.1. Developments and growth of BMTs in Indonesia

No.	City	Years established and total number of BMTs	Current year's operation, and total number of BMTs
1	Jambi	1995–2008	2008
		8 Units of BMT	3 units of BMT
2	Ciamis	2000	2008
		42 units of BMT	7 units of BMT
3	Tasik Malaya	2000	2008
		50 units of BMT	12 units of BMT
4	Bandung	2000	2008
		32 units of BMT	8 units of BMT

Source: (Syahputra, 2010 & Gampito, 2008)

On the basis of the table shown above, we can see that the development of BMTs in Jambi City in the period 1995–2008 reduced significantly; there were 8 units of BMT, and now there only remain 3 units (Syahputra, 2010). In 2000, in the district of Ciamis, the number of BMTs reached 42 units, but today there are only 7 units remaining. In the area of Tasik Malaya which had reached over 50 units of BMT, they now have only 12 units of BMT. Similar was the case in Bandung City, where, from 32 units of BMT, they now have only 8 units of BMT in operation (Gampito, 2008). In addition, and based on the statement of PINBUK (*Incubation Centre of Small Business*), at the end of 1997, 1,502 units of BMT which had not been developing too well, failed and ended up in bankruptcy.

The phenomena described above, also occurred with the BMTs in Pekanbaru City. The following table shows similar cases with previous cases that have been described before.

Table 1.2. List of BMT in Pekanbaru

No.	Name of BMT	Location	Note
1	Al Amin	Jalan Pasir Putih	Active
2	Ittihad	Rumbai	Active
3	Sakinah	Gading Marpoyan	Active
4	Septa Bina Usaha	Jalan Kaharudin Nasution	Active
5	Madani	Jalan Perkutut Sukajadi	Nonactive
6	Bina Insan Cipta	Jalan Paus	Nonactive
7	Mika Arta	Jalan Sekolah	Active
8	Munawarah	Kampus UIR	Nonactive

Source: PINBUK Pekanbaru (2012)

On the basis of the data shown above, we can see that only 5 units of BMT are active. They are: Al Amin, Ittihad, Sakinah, Septa Bina Usaha, and Mika Arta. Then there are 3 units of BMT that are nonactive or passive. They are: Madani, Bina Insan Cipta, and Munawarah. Some units of BMT become non active or passive because they faced many problems with their operations, whether it comes from internal or external sources.

1.2 Problem Statement

The BMT is a financial institution which is sought after by small entrepreneurs for financing their business operations. This institution provides finance to help small entrepreneurs who cannot access finance from the larger banking sector. In addition, the existence of BMTs is a blessing for the lower income group in society, keeping them away from illegal money lenders who burden them with much higher interest rates. Since its appearance in 1992, the BMT has been receiving positive responses from all sections of society in Indonesia. Many people take advantage of these opportunities which are available through the setting up of a BMT institution; however, many of them failed and ended up bankrupt. It is because they faced many problems in their operations.

The above issue has been researched by Gampito (2008), who examines the factors that are problematic in the operation of BMTs in Indonesia. However, there is still no study that analyzes the problems faced by the BMT in Pekanbaru, specifically. Therefore, this study attempts to analyze the problems faced by the BMTs in Pekanbaru, and whether the nature of these problems comes from internal or external sources.

1.3 Objectives of Study

The objective of this study is to analyze the problem faced by the BMT in Pekanbaru. This study divides the problem into two: internal and external factors. The problems are analyzed using the Analytical Network Process (ANP) approach.

It is hoped that this study will also be able to determine the dominant problems faced by BMTs in Pekanbaru in order to achieve its vision and mission. Lastly, the study attempts to uncover solutions and strategies that will help to resolve the problems concerned.

1.4 Research Questions

- a. What are the factors that created problems for the BMTs in Pekanbaru ?
- b. What is the dominant factor that caused the problems for BMTs in Pekanbaru?
- c. What are the alternative solutions to a variety of appropriate strategies to resolve the problems of BMTs in Pekanbaru?

1.5 Significances of study

These studies have gained more attention from government as financial system policy makers and regulators, researchers, owners of BMTs in Pekanbaru, and owners of others financial institutions.

Government	Passed a new regulation to facilitate simplicity in operation. So, the BMTs will find it easy to develop and grow.
Researcher	To add information and knowledge when conducting research in the same field.

Owners of BMTs in Pekanbaru	As an evaluation in order to enhance their performance.
Owners of others financial institution	As a consideration when dealing or cooperating with BMTs in any particular business as a partner.

CHAPTER TWO

LITERATURE REVIEW

2.1 Reviews of Current Literature

Research was conducted by Bilqis (2005) about alternative solutions to the financing problem of Islamic microfinance institutions case study on the BMT *Maslahah Mursalah lil Ummah* (MMU) branch, Dinoyo Pasuruan East Java. Results of this research explained that the financing problem is a situation that arises when the customer obtains financing from a BMT, but does not fulfill their obligations in accordance with the agreement that has been executed. Another issue that emerged is related to this problem, where there is no legal right for BMT to make a seizure or confiscation of goods as the collateral for the finance, without the consent of the owner, by looking at what conventional banks did in such cases, because the seizure by force went against the *sharikah* contract. Further research offers a solution about the procedure that was not allowed in *sharikah* contract to seize or confiscate collateral, but to take over the collateral which is allowed, based on the deal signed together, or by mutual consent, in the hope there is a decisive and clear contract in the initial stages of the customer who asks for financing. In Islamic point of view, collateral or guarantee can be divided into two categories. Firstly, personal guarantee (*al kafalah*) and collateral of wealth known as *ar rahnu*.

Kurnila (1999) studied about the management of finance in BMT *Al-Ikhlas* in order to anticipate any possible doubts and problems with financing. She found that basically the BMT management applies three levels of policy. First, the management tries to control the finance by looking at the project's feasibility. Second, the BMT management does control the project being financed. Finally, if the problem cannot be avoided, the management adopts a repressive attitude.

Solihin (1999) researched the behavior of customers in BMT. He undertook the case of BMT Kharisma in Magelang. Basically, he examined several possible variables related to the perception and willingness to be a member or a customer of the BMT. Solihin concluded that there was a positive relationship between the willingness to be a member or a customer of BMT, given the education level as well as the age of customers.

PINBUK (1999) had also conducted a study of development evaluation of *Pondok Pesantren Cooperative (Kopontren)* and BMT. The study is basically concerned with the following research questions: (1) what are the external factors that impede and support the development of *Kopontren* and BMT? (2) what type of financial institution becomes a potential and serious competitor for *Kopontren* and BMT in their localities? The study was conducted based on the survey of 24 units of BMT and 30 units of *Kopontren* in the three provinces of West Java, Middle Java, and East Java. The study concludes that there are three external factors which possibly support the existence of BMT and *Kopontren*. They are: (1) the consciences and willingness of Muslims to utilize and assist the Islamic financial institutions; (2) BMT and *Kopontren* basically serve the customers well, both in delivering the products or services, and collecting the customer's obligation; (3) BMT and *Kopontren* provide simple procedures to obtain finance.

Besides the supporting factors, the research also found some external obstacles or barriers. These included: (1) the lack of knowledge that society has toward BMT; (2) a misunderstanding among the society's members about the social and religious role of BMT and or *Kopontren*; (3) it is also found that basically there is no leading competitive commodity that can be financed; (4) the BMT and *Kopontren*, at most, suffer from lack of supervision and development assistance; (5) there is no single institution which can provide a guarantee in the case of liquidity problem; and (6) most of the customers are working in the small retail sector, and almost none work in the manufacturing sector.

Indrawati (2008) analyzed certain factors that influenced the financial performance of BMT *Sarana Wiraswasta* in Malang with an objective to: (1) analyze the significance of variables of capitalizing structure, productive asset quality, liquidity, cost efficiency, capitalizing efficiency, economic rentability, self-capital rentability on the financial

performance of that BMT; and (2) analyze which variable predominantly affects the financial performance of BMTs. The kinds of data used are secondary data, and monthly reports for six years (2000–2005) by using documentary technique. The data are analyzed by using multiple linear regression analyses. The research found that the financial performance of BMT during those six years was unstable because of bad management. The results of multiple linear regression showed that there were only three independent variables which had significant effects: productive asset quality, liquidity, and capitalizing efficiency. Productive asset quality reveals a more significant role in the financial performance of BMT.

Research conducted by Bank Indonesia in 2003 in Gampito (2008), with the topic of public acceptance of the existence of BMT *MUI* seen from the behavior of its members in Sleman Yogyakarta, with the number of respondents consisting of 80 people, mentioned that 37 people knew about BMT directly from BMT itself; 2 people from newspapers or flyers and promotion; 22 people from friends; and 4 people from relatives. More than about 47% of respondents said they strongly agreed with the vision and mission of BMT, and 38% of the other states agreed. Against the principle of avoiding *riba*, 43.75% strongly agreed, and 45% simply agreed. About trading systems and the PLS (*profit loss sharing*) system in BMT, 45% said they strongly agreed, and 37.5% simply agreed. About the products of BMTs, 27.5% said they strongly agreed, and 48.75% simply agreed. This means that, on average, the respondents agreed and accepted the existence of BMT itself.

Sa'roni (2012) identifies the determinant factors of the success of BMT. The method of this research is a financial description and analysis of characteristics. The results show that the main determinants of the BMT's success are capability of financial management, characteristics of customers seeking financing, capability of risk management, familiarity among customers and managerial team of BMT, Information Technology (IT), and network.

Dariah's (2012) study was on improving the capital of BMT, from an experience from BMT Lathifah in Sumedang. This study elaborated, in detail, the way in which BMT

Lathifah had functioned in order to overcome financing problems, and what type of social capital was involved. A descriptive research method was used to analyze the data. The result indicated that BMT Lathifah enjoyed successes in overcoming financing problems by rescheduling, restructuring, reconditioning. The management of BMT Lathifah developed around internal management, especially human resources and accounting management, established a good relationship with the customer, constructed Progress out of the Poverty Index as benchmark for decision financing. Qordhu Hasan financing and ZIS (Zakat, Infaq, and Sodaqoh) which reflected social capital, had increased. They function purely on cooperation and mutual help. The management also developed bonding of social capital as a means of delivering coaching programs for members, hearing complaints about the service, as well as socialization of Islamic economics.

Sartini (2012), examines the internal control system for Islamic micro-financing: an exploratory study of BMT in the City of Yogyakarta Indonesia. It aims to investigate the implementation of an internal control system for financing activities practiced by BMT, a special microfinance organization, in Indonesia. The finding is that BMTs in Indonesia have implemented an internal control system for their financing activities. The stages of the implementation are: information and communication; monitoring; control environment; risk assessment; and control activities. This study also indicates that the implementation of authorization and consultation to the Shariah Supervisory Board (DPS) was low.

Widyanto (2007), examines the effectiveness and sustainability of BMT financing in developing microenterprises. Specifically, this study provides an evidence of technical efficiency of BMTs in Central Java, and the effectiveness, impact and social benefits of BMT financing. Using nonparametric data envelopment analysis (CCR and BCC models), it is found that the technical efficiency of BMTs for the period 2002–2005 is relatively low. The scale efficiency indicates that BMTs operate far below the optimal scale (i.e., 67.00%, 78.40%, 74.30%, and 80.9% in 2002, 2003, 2004, and 2005, respectively). The results also show that the gap in efficiency scores exist in both CCR and BCC models. It implies that BMTs use their inputs sub optimally. Hence, under increasing return to scale, BMTs can improve their performance by increasing their

inputs; while under decreasing return to scale, BMTs can improve their performance by decreasing their inputs.

However, recently, the study on BMT efficiency was conducted by Nasution (2013). The paper attempts to construct the best model of efficiency in Indonesia that can be applied in other countries as well. The author employs the concept of efficiency starting with the consumer and producer theory, then, it develops to measure economic efficiency. The study also employs common Data Envelopment Analysis (DEA) with input and output variables. The study concludes with the suggestion that total deposit, total asset, labor cost, and fixed assets are taken as inputs to measure BMT efficiency.

The results suggest that BMT financing (Islamic financing) was effective in developing microenterprises. The results of a paired sample *t*-test indicate that BMT financing was able to enhance business performance of microenterprises significantly by increasing business income, business profit, business assets and number of employees. Additionally, the development of microenterprises also was able to reduce the rate of nonperforming financing. The rate of nonperforming financing is less than 5%. This indicates that microenterprises, generally, were able to develop their business so that they could repay the financing. The results suggest that selection process, business control, incentive system and good relationship construction (cooperation) constitute important factors in increasing the effectiveness of Islamic financing. Furthermore, the effectiveness of Islamic financing can still be improved by including nonperforming financing control mechanisms in the management system.

Rini (2011), examines the human resources issues faced by BMT *Bina Insani* in Kebumen, that they result from a lack of knowledge and understanding of the personnel or staff of BMT about Islamic economics and finance, particularly the BMT knowledge base. And too close a relationship between personnel and the head of personnel in the workplace, makes it difficult to carry out a performance appraisal. The solutions/resolutions to resolve/address the human resource issues in BMT *Bina Insani* which is mentioned above are as follows:

- a. Sending their personnel for training and education on Islamic economics.

- b. Sending their personnel for internship at advanced BMTs in order to receive a good understanding about the practice of Islamic economics and Islamic financing in BMTs.
- c. For the personnel of BMTs, and especially for the head of personnel to have quick access to new information, or news about the Islamic economics through the media, particularly information about the fatwa and the guidance of the National Sharia Council (DSN) on the implementation and operation of Islamic banking in a financial institution.
- d. Buy books about Islamic economics to be read by all personnel in the BMT to increasing their knowledge.
- e. Make a clear job description and SOP (*standard operational procedure*), so that each staff/personnel know their rights and responsibilities and work more professionally.
- f. Performance appraisal conducted through a discussion between the leader of staff and personnel of BMT, who is conducting a review of the performance of staff, then discuss what could be done to improve the performance and capabilities of staff. This is to reduce the impression of feeling stiff and uncomfortable in the workplace.

Adnan, Widarjono, and Anto's (2003) study on factors influencing performance of the best BMT in Indonesia which collected data from the best 47 BMTs in five different provinces, i.e., West Java, Jakarta Special Territory of Capital, Middle Java, Special Region of Yogyakarta, and East Java. The simple descriptive, as well as the regression analysis, was applied. It was found that there were four main influencing factors. They were the salaries of the management, the education and the management skill of personnel involved in daily operation, and the product attributes. Other factors predicted at the beginning, such as working hours and the numbers of products, are found to have a negative correlation to the BMT's performance. One important implication of these findings is that there is a serious need to improve the management's skills as well as the need to refine the manager's rate of salary.

Mu'alim and Abidin (2005) made some observations about the professionalism of BMT people in Yogyakarta City and Sleman Regency. The results of their research are as follows. Firstly, the interpretation of professionalism by many BMT people tends to be practical. This professionalism is evident in the context of service quality rendered by BMT to its customers. This means that the greatest measure of professionalism is in the quality of service. Secondly, there are some factors that influence the professionalism of BMT people, namely: (1) understanding the concept of Islamic finance; (2) the operational obstacles in the Islamic financial system; (3) the human resources management (about role and function); (4) the performance of BMTs among the other banking business competition; (5) the imbalance between savings and cost; (6) the PLS between the customers; and (7) the Mudharabah which is not the priority of BMT.

Research was carried out by Kholim (2004) on the existence of BMTs and the problems in operations (a study in Central Java Province). The result of the research indicated that the existence of BMTs was not reflected in the existing regulations. The existence of BMTs was only in a form of KSM (*Community Self-supporting Group*) guided by LPSM (*The Institute of Community Self-supporting Development*) pioneered by Bank Indonesia (BI) in PHBI (*The Project of Bank of Indonesia Relationship and Community Self-supporting Group*). If a BMT was able to collect funds in large amounts in the course of its development, the existence of BMT could be a legal institution of *Multi Business of Cooperative* (KSU) or *Saving and Financing of Cooperative* (KSP). There are several factors that inhibit the operations of BMTs. In general, these are: (1) the concept of Islamic economics was not yet properly understood, and (2) there was no regulation that specifically decreed the existence of BMTs, resulting in some people hesitating to save their money in BMTs. On the basis of these results, it can be suggested that the government promulgates some special ordinance that certifies the existence of BMTs, beside ensuring the education and training for the managers of BMTs to increase their skills, and for the BMT management to be familiar with the principles of Islamic economics.

Mustamir and Mawardi (2006) who studied about the problems in the application of the Islamic economic system of BMTs in Pekanbaru, reveal that there are many constraints

found in the application of the Islamic economic system in BMT institutions. These are: (1) lack of managerial skill in the employees of BMT, particularly in accounting, reporting, and administration, (2) lack of BMT-owned and run transportation and communication facilities, (3) there is no guaranty in financing, (4) lack of BMT-owned capital, (5) lack of society's knowledge regarding the principles of Islamic economics, (6) the customer always diverted the use of funds received for some other purposes, (7) difficulty in finding honest and potential customers to receive financing from BMTs. Further research results suggested that BMTs need to improve their services towards customers and partners of BMTs, especially for those who need financing from BMTs.

Gampito (2008) examined the factors that were problematic in the operation of BMTs in Indonesia where such factors came from within the organization. These are: (1) lack of capital and sources of funding, (2) slackness in performance of duties of BMT employees, (3) lack of innovation in marketing banking products, (4) lack of facilities and technologies used by BMTs. The problems arising from external sources are: (1) stiff competition among the BMTs, (2) low level of public trust toward BMT performance, (3) lack of networking and cooperation among other financial institutions, (4) lack of supervision and guidance from government and MUI.

To analyze the policy for the development of BMTs, and to understand the problems faced, strategies for the expansion of BMTs were formulated by Gampito (2008), as follows:

1. Improve the quality of human resources of BMTs through proper and appropriate education and training, and strive to continuously build up levels of cooperation with informal institutions through non formal education.
2. Strategic knowledge in business strategies. This requires enhancing the professionalism of BMT in the manner of customer services.
3. Developing paradigmatic aspects, the required knowledge about the Islamic aspect in business while raising charges; the spirit of Islam in each manager and employee's behavior to society and customers, in particular.

4. Expanding the network of cooperation among BMT, BPRS (*Islamic Rural Banks*), and the Islamic Bank which are one with each other, and set a goal for the eradication of poverty, and to establish the spirit of Islam in the economy. Thus, there will be formed vertical and horizontal networks that support the development and existence of the BMTs. A horizontal network is a network between one BMT and another, and the vertical network is between a BMT and a larger institution. Network is important, because it allows the BMT to obtain information which they need, access to funds, and transfer of knowledge and technology.
5. Conduct intensive supervision; this is very important as a tool to control the operational performance of BMTs. Intensive supervision is important to ensure no deviations in the operations of BMTs, and will serve as an early warning system regarding the health status of the BMT.
6. Need for innovation in Sharia-compliant products which are offered to the public. Development of innovative products can be done through a program of replication of products that have been tried out and proven to be successful.
7. To expand BMTs, and the effort needed to improve their marketing techniques for introducing the existence of BMTs in the heart of society.
8. Increase the number of BMTs by setting them up in every village. This is because the current numbers of BMTs in Indonesia are generally located in the urban areas, whereas most of the poorer sections of society are located in the rural areas. This leads to many poor people borrowing money from the illegal money lenders because there are no BMTs in their areas. However, the market share for finance in this country is full of potential for the spread of BMTs.
9. Gain support from society and religious leaders for society to realize the existence and potential of BMTs which are always ready to assist the small and medium entrepreneurs. Support from society and religious leaders is very important, because most people have great belief and respect for such leading figures.

10. Need for evaluation in order to provide opportunities for BMT to be more competitive. This evaluation can be done by setting up an evaluation agency, or BMT certification institution. It is dedicated specifically to provide a report, quarterly or annually, about the rating and performance of BMTs throughout Indonesia.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 The Methodology

These researches applied the Analytical Network Process (ANP) method in order to collect data from respondents. In this methodology, the data used are primary data obtained from interviews (in-depth interviews) with academicians, practitioners, and regulators, all of whom have an understanding on the issue of BMT management in Pekanbaru. The interviews were conducted by way of filling up a questionnaire.

Respondents were selected, or contacted, using purposive sampling, and the data obtained was analyzed by using this method in order to realize its usefulness in decision making, forecasting, evaluating, mapping, and strategizing towards the problems of BMT in Pekanbaru.

3.2 Population and Sample

The selection of respondents in this study was conducted by purposive sampling and by considering the respondents' understanding of the issues in the management of BMTs in Pekanbaru. The number of respondents in this study consisted of seven people, as they were found to be quite competent in representing the whole population. In the analysis of ANP, the number of samples, or respondents, is not valid as a benchmark. Therefore, among the selected respondents in the survey, some were experts, or researchers, in Islamic economics and its practitioners or professionals who were engaged in managing BMT issues. Questions in the questionnaire were in the form of *Pairwise Comparison* of

ANP (benchmarking partner), and between elements within the cluster to determine which of the two was the larger influence (more dominant), and how wide was the difference when viewed from one side, in a 1–9 numerical scale used as the tool of the verbal assessment.

Table 3.2 Comparison of Verbal and Numerical Scale

VERBAL SCALE	NUMERICAL SCALE
The most absolute influence	9
	8
The most influence	7
	6
Greater influence	5
	4
Slightly bigger influence	3
	2
Same influence	1

Researcher used the questionnaire that was modified by Ascarya (see Appendix 7). This reduced the scale of the questionnaire to 1–5 in order to simplify the respondent’s task in answering the questionnaire. When answering the questionnaire, the respondent was guided by the researcher in order to maintain consistency in the answers given, because nontechnical factors in answering the questionnaire can lead to high levels of inconsistency.

3.3 Data Analysis Techniques

Data obtained from this study will be analyzed using ANP which is a method that can be used in decision making, forecasting, evaluating, mapping, and strategizing toward the

problems of BMTs in Pekanbaru. This analysis will be processed by using “*Super Decision software*” (see appendix 1) that was introduced by Professor Thomas Saaty, research expert from Pittsburgh University.

3.3.1 Overview of ANP

ANP is the new approach to qualitative methods. ANP was introduced by Professor Thomas Saaty, with the intention to refine the method of Analytic Hierarchy Process (AHP). ANP exceeds the other methodologies in its ability to take measurements, and to synthesize a number of factors in a hierarchy or network. No other methodologies have these facilities, such as the synthesis of ANP methodology. According to Saaty in Ascarya (2005), ANP is used to derive composite priority ratio scales from individual ratios that reflect the relative measurement of the influence of elements which interact with each other with respect to the control criteria. ANP is a mathematical theory that allows one to treat dependence, and with its feedback, can systematically capture and combine factors that are tangible as well as intangible.

ANP is a new approach in the decision-making process that provides a common framework in handling decisions without making assumptions about the independence of the elements at a level higher than the elements at a lower level, and generally, about the independence of any of the elements in any level. Unlike the AHP, ANP can use the network without having to set the level at that of the hierarchy that is used in AHP. The main concept of the ANP is “influence”, while the main concept in the AHP is “preference”. AHP, with the assumptions and dependencies of the cluster element, is a special case of the ANP (Ascarya, 2005). AHP comprises several networks, such as objectives, criteria, subcriteria, and alternatives, where each level has its element. Meanwhile, at the ANP network, the level of the AHP, called clusters, can have certain criteria and alternatives in it, which is now called a knot (see figure 3.1).

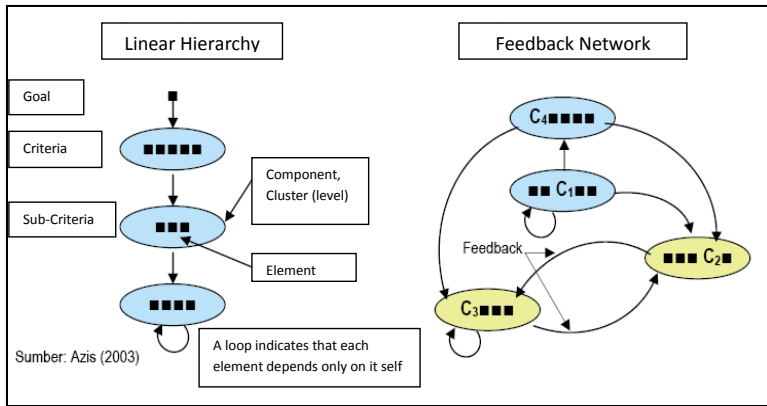


Figure 3.1 Comparison of Hierarchical Linear and Network Feedback

With feedback, the alternatives can depend on, or be bound to criteria, such as the hierarchy, but can also depend or be bonded to one other alternative. Furthermore, the criteria themselves can depend on the alternatives and to one other criterion. Meanwhile, the feedback increases the priorities derived from judgments, and making predictions becomes more accurate. Therefore, the result of the ANP is expected to be more stable. From the feedback network, it can be seen that the main element, and the node to be compared, can be in different clusters. For example, there is a direct connection from the primary node to the other clusters C4 (C2 and C3) which is the outer dependence. Meanwhile, there is the main node, and the nodes to be compared are on the same cluster, so that the cluster is connected with itself and forms a looped connection. This is called inner dependence.

In a network, elements in a component or cluster can only be a people (for example, individuals in the BI), and elements of components or clusters that may be other people (i.e., individuals in the home). An element in a component or cluster can affect other elements in the components or the same cluster (inner dependence), and may also affect the other elements on the cluster (outer dependence) with respect to each criterion. It will be an advantage in the ANP, to know the overall effect of all the elements. Therefore, all criteria must be set and made a priority within the framework of the control hierarchy or

network, carrying out a comparison and synthesis to obtain the priority order of a set of criteria. Thus, we derive the influence of elements in the feedback with respect to each criterion. Finally, the results of this influence are weighted according to the importance of the criteria, and summed to obtain the overall effect of each element (Ascarya, 2005).

3.3.2 ANP Foundation

ANP has three axioms that underlie its theory:

- a. Reciprocal. This axiom states that if the PC (EA, EB) is the value of the compared pair of elements A and B, viewed from its parent element C, which shows how many times more the elements of A had over the elements of B, then the PC (EB, EA) = $1/PC(EA, EB)$. For example, if A is five times greater than B, then B is at a magnitude of 1/5 of a large A.
- b. Homogeneity. This axiom states that elements being compared should not differ too vastly, as this can cause great errors in judgments.
- c. This axiom states that those who have reason to believe, should ensure that their ideas are adequately represented in the results, thus matching expectations.

3.3.3 Basic Principles of ANP

There are three basic principles of ANP. These are: decomposition, comparative, and hierarchical composition or synthesis of priorities. The decomposition principle is applied to structure a complex problem into the framework of a hierarchy or network clusters, sub cluster, sub of sub clusters, and so on. In other words, decomposition derives the model of problem into the framework of ANP.

The principle of comparative assessment is applied to build the benchmarking partner (*pairwise comparison*) of all combinations of elements in the cluster seen from its parent cluster. In comparing the two, we get the local priorities of elements in a cluster seen from its parent cluster.

The principle of hierarchic composition or synthesis is applied to multiply the local priorities of elements in the cluster with the priority 'global' of the parent element, which will produce global priorities throughout the hierarchy and add them to generate a global priority to the lowest level element (usually an alternative).

3.3.4 Main Functions of ANP

ANP methodology has three main functions. These are:

- a. Structuring the complexity. In his research, Saaty found similar patterns in a number of examples of how humans solve the complexities of the times, where the complexity of hierarchy is structured into homogeneous clusters of factors.
- b. Inter-ratio scale measurements. Previous decision-making methodologies typically use low-level measurement (ordinal or interval measurement), while the ANP methodology uses ratio-scale measurements that are believed most accurate in measuring the factors that make up the hierarchy. Level measurements from lowest to highest are nominal, ordinal, interval, and ratio. Each level of measurement has all the meanings that have a lower level with the addition of a new meaning. Measurement interval ratio has no meaning, but has interval meaning, ordinal, and nominal. Ratio measurement is required to reflect proportions. To maintain the simplicity of the methodology, Saaty proposed the use of assessment ratio of each pair of factors in the hierarchy to derive ratio measurement scale. Each methodology with hierarchy structure should use ratio-scale priorities for elements above the lowest level of the hierarchy. This is important, because the priority (or weight age) of elements at any level of hierarchy is determined by multiplying the priority of the elements on the level with the priorities of its parent element. Since the multiplication of two interval-level measurements, mathematically, has no meaning, the ratio scale is required for this multiplication. AHP/ANP uses ratio scale on all the lowest levels of the hierarchy/network, including the lowest level (the alternative in the choice model). The scale of this ratio becomes increasingly important if the priority is not only used for the application of choice, but for other applications, such as applications for resource allocation.
- c. Synthesis. Synthesis is the opposite of analysis. If the analysis is to parse the material or abstract entity into its constituent elements, then the synthesis

means bringing together all the parts into a single unit. Because of the complexity, the situation is an important decision, or the forecasts or the allocation of resources often involve too many dimensions for humans to be able to perform synthesis intuitively, thus, we need an alternative solution to make a synthesis of many dimensions. Although ANP facilitates the analysis, the most important function of ANP is its ability to assist in performing the measurement and synthesis of a number of factors in a hierarchy or network.

CHAPTER FOUR

AN OVERVIEW OF BAITUL MAAL WAT TAMWIL

4.1 The Background of Bitul Maal Wat Tamwil (BMT)

Baitul Maal is derived from the Arabic word “*Bait*”, which means house, and “*al Maal*” means wealth or property. So, Baitul Maal etymologically means a house to collect and store property or wealth (Dahlan, 1999). Abdul Qadim Zallum (1983) in his book *Al Amwal fi Daulah al Khilafah*, states that the definition of Baitul Maal in official terminology means an institution or party (*al jihat*) entrusted with the special duty of handling public wealth or public property, relating to either revenue or expenditure. Baitul Maal could also be interpreted physically as a place (*al makan*) to store and manage all kinds of property and income of the state (Zallum, 1983).

The basic concept of BMT was inspired from the concept of Baitul Maal that was already built during the time of Rasulullah SAW, even though it was not formed and separated as an independent institution. Later on, Baitul Maal stood as a financial institution in the period of Umar Bin Khatab, which has been proposed by jurists such as Walid bin Hisham. In the next period from the Abasiyah dynasty until the Usmaniyah dynasty, Baitul Maal has evolved into a vital institution for the state. Although not all sources of

money are owned by the Baitul Maal, it can be said that Baitul Maal made its presence felt in many affairs of the state. Starting from the collection of Zakat, building roads, paying employees and state officials, and controlling other building facilities. (Encyclopedia Islam II, 222–224).

At the time of Prophet Muhammad SAW, Baitul Maal serves as an institution or body (*al jihat*) empowered with special duties to handle public wealth or public property relating to either revenue or expenditure. At that time, Baitul Maal did not have any exclusive place or warehouse to store properties, because the quantum of property in Baitul Maal was not all that much. Its properties are always distributed among Muslims, and spent for the benefit of maintaining their affairs. Rasulullah SAW, always shared *ghanimah* and *khamas* (1/5 of *ghanimah*) after the war, without any delay or deferment. In other words, he would immediately distribute it according to their designations.

In the first year of the Caliph Abu Bakar (11 H/632 M), Baitul Maal was still in vogue as it was at the time of the Prophet SAW. If he acquired a property from the territories of any Islamic region, he would bring it to the mosque of Nabawi and distribute it among the people who were eligible to receive it. For this arrangement, Abu Bakar had appointed Abu Ubaidah bin Al Jarrah. Then, in the second year of the Caliph Abu Bakar (12 H/633 M), he pioneered the concept Baitul Maal with broader duties and obligations. Baitul Maal served not only as an institution or party (*al jihat*) entrusted with handling public property, but also as a place, or location (*al Mekan*), for storing the state's properties. (Ma'ruf, 2007)

In the period of Caliph Umar bin Khatab, the territories of the Islamic regions were expanding vastly, and the revenues of the state were increasing very significantly. Such a situation needed special attention to be able to manage everything properly, effectively, and efficiently. After conducting consultations with his companions, the Caliph Umar bin Khattab made a decision not to spend all the funds in Baitul Maal at once, but to distribute it gradually, according to the needs that existed, even allocating and making a provision for a reserve fund. At this time, the functioning of Baitul Maal was strongly developed, so that it made Baitul Maal a regular and permanent institution. Development

of the Baitul Maal institution which was equipped with a well-organized administrative system is a large contribution given by Umar bin Khattab to the world's Muslim community. (Ma'ruf, 2007)

During the period of the caliphate of Usman bin Affan, there was a lot of criticism from many people about the issue of the management of Baitul Maal, where Usman bin Affan appointed his families and relatives to certain positions in the department of the state. He gave *khamas* (1/5 of *ghanimah*) to Marwan, who later become the fourth caliph in the Umayyah dynasty, and he also gave a lot of wealth to his families and relatives. Such problems caused Baitul Maal, at that time, to be less effective in carrying out its functions and objectives. (Ma'ruf, 2007)

When the Islamic government was led by the Caliph Ali bin Abi Thalib, the capital was moved from Madinah to Kufah because of reasons involving political stability and social status, and, automatically, the center of Baitul Maal also moved. This movement resulted in certain advantages for the state after the conquest of Iraq, Syria, Iran, and other regions. The location of the state capital is geographically very strategic. Additionally, the communication between the government of the state and the provincial governments become more fluent and intensive. At this time, the Baitul Maal office was also established in each province. (Ma'ruf, 2007)

In the next period of the Umayyah dynasty and the Usmaniyah dynasty, Baitul Maal plays an important role as the treasury of government that manages all income, revenue and expenditure of the state. The Baitul Maal was not only a place to store the wealth, but it was also an institution that had the authority to conduct a financial policy. Unfortunately, during this period, there were many deviations in managing the funds of Baitul Maal. The leaders of the government during that period was very selfish and egoistic. They took much money from Baitul Maal for their personal affairs without considering the well-being of society, as well as not adhering to what Rasullah SAW and his companions did. But in the period of Umar Abdul Azis, Baitul Maal was managed very well. Umar strived to clean up Baitul Maal from non halal property or wealth, and to distribute it to the beneficiaries. Umar also asked the *Amir* (leader of province) to return

the previous property or wealth that was illegally sourced. Besides that, Umar also returned his previous property and wealth which amounted to around 40,000 dinars that was inherited from his father Abdul Aziz bin Marwan. (Ma'ruf, 2007)

4.2 Definitions and Objectives of Bitul Maal Wat Tamwil (BMT)

BMT began to get established in 1992. It was initiated by Aries Mufti with the establishing of BMT Bina Insan Kamil in Central Jakarta. But the formal establishment of BMT starts only in 1995 after *Bank Muamala Indonesia* (BMI) was formed as the first Islamic Bank in Indonesia. The formation of BMT was initiated by *Indonesia Muslim Intellectual Association* (ICMI), *Indonesia Ulama Council* (MUI) and *Bank Muamalat Indonesia* (BMI). This led to the growth and development of today's BMT.

They are some experts who have made statements defining the objectives of BMT. These are given below.

According to Andriani (2005), the term "*Baitul maal*" means house of money and "*Baitul tamwil*" means house of expense, or Islamic Bank. The term Baitul Maal was introduced at the time of Rasulullah SAW even though it was not yet well established then. While Baitul Tamwil has strong roots dating back to the Islamic movement and its leaders since 1940. BMT is a small financial institution which operates using mixed concepts of Baitul Maal and Baitul Tamwil, with its targets and aims, and is scaled to cater to the small business sector. (Andriani, 2005).

According to Fachri and Khaidir (2004), BMT is an amalgamation and integration of independent business institutions, with the abbreviated name taken from a combination of Baitul Tamwil and Baitul Maal. The activities of Baitul Tamwil are directed towards the development and productivity of enterprises and investments, aimed at improving the quality of the economic activities of small entrepreneurs, encouraging savings activities, and supporting their economic activities. Baitul Maal activities are entrusted with receiving Zakat, Infaq, and Sadaqah, and distributing those funds to beneficiaries (for example, Mustahik Zakat) in accordance with the rules and mandate from Al Quran and Sunnah. (Fachri & Khaidir, 2004).

Mu'alim and Abidin (2005) stated that BMT is an economic institution of society which aims to develop productive ventures and investments through a PLS system, to improve the quality of small economies in the fight against poverty. BMT has a vision to become the Islamic microfinance institution (with a system of PLS); it is professional and reliable, and has an extensive network covering three-quarters of small and micro businesses throughout Indonesia (Aziz, 2004). Thus, the activities of BMT are focused on finance to small and medium enterprises (SMEs) that do not have access to banking facilities.

PKES (*Communication Centre of Islamic Economic*) also gives a definition of BMT as a micro-financial institution, that operates based on the Shariah principle of giving micro-financing, strives to develop the business of small entrepreneurs, increases the social and economic status of the lower income group of society, and is established based on the principles of "*salam*": secure (justice), peace and blessing. (PKES, 2009).

On the basis of the statements quoted above, researchers conclude that BMT is a financial institution that has been established with the purpose of improving the quality of weak economic enterprises in providing funding to small and medium entrepreneurs in order to enhance their business through applying Islamic principles, and also by trying to develop and increase their economic growth, and enhance the welfare of the lower income group of society, as well as to avoid them falling victims to illegal money lenders.

BMT is also considered as an informal nonbanking financial institution, since it has been formed and established by a group of people, with its objectives, operations and benefits being conducted for the well-being of society. As for management of BMT, it is derived from the principle and operation of Baitul Maal as it was during the Prophet's time, as well as that of his companions. Therefore, BMT not only functions as a profitable financial institution, like a bank, but it also empowers the destitute through the utilization of funds, like Zakat, Infaq, and Sadaqah.

4.3 The Function of Baitul Maal Wat Tamwil (BMT)

The establishment of BMT is a necessity for the lower income members of society, particularly for micro and small entrepreneurs, to protect them from illegal money lenders. The BMTs also function as a financial intermediary that channels funds from a surplus unit to a deficit unit, as the role of the BMT is to serve the lower income society in giving micro-financing. Another function of BMT is to alleviate poverty, abolish loan sharks, and reduce unemployment.

In order to achieve their objectives, BMT has to perform certain functions which are (BMT Mutiara Sakinah profile, 2007):

1. Identify and develop potential members and enhance the economy of members and group members.
2. Improve the quality of human resources (HR) members to become professionals and Islamic, so that they can be more competitive in facing global challenges.
3. Mobilizing the potential of the community in order to improve the welfare of its members.
4. Become a financial intermediary between the owner of funds (surplus unit) and the user or borrower (deficit unit), and to develop productive enterprises.

4.4 Legal Status of Baitul Maal Wat Tamwil (BMT)

Certain operations of the BMT in Indonesia are supported by PINBUK, INKOPSYAH, and BMT Central. These institutions have the same mission of catering to the well-being of the small and micro entrepreneurs. Additionally, the establishments of these institutions are supported by ICMI, MUI, and other Islamic financial institutions. BMT can be established in the form of a self-help society or cooperative. The legality aspect of BMT is based on the memorandum of understanding between BI and PINBUK, and pertains to the development projects of PINBUK with BMT, that are aimed at combating poverty through the cooperative mechanism. However, the legal status of BMT is determined by the total assets owned by BMT, as follows (Situmorang, 2011):

1. For BMTs that have a total asset less than RP 100 Billion, they form a KSM (*Community Self Supporting Group*) which is entitled to request/obtain a certificate of partnership from PINBUK (*Incubation Centre of Small Business*).

2. For BMTs that have a total asset equal to or more than RP 100 billion, they are required to form a legal entity under the local notary, and among other things, form the following:
 - a. Syariah Cooperative (KOPSYAH)
 - b. Business unit from KSP (*Saving and Financing Cooperative*), KSU (*Multi Business Cooperative*), KUD (*Village Unit Cooperative*) and KOPONTREN (*Pondok Pesantren Cooperative*).

4.5 Activities of Baitul Maal Wat Tamwil (BMT)

Baitul Maal Wat Tamwil is a combination of two institutions, Baitul Maal and Baitul Tamwil. Thus, BMTs conduct their activities based on the functions of both institutions. It means BMT not only conducts business activities as well as Baitul Tamwil functions, but also conducts social and religious activities. According to Dewi (2007), BMT's activities are:

1. Collection of funds from the public or members in the form of principal savings and voluntary savings.
2. Provision for financing economic activities in the community.
3. Receive Waqaf and manage the utilization of Zakat, Infaq, and Sadaqah according to the provisions of Sharia.

Saifuddin A Rasyid, in Gampito (2008) BMT conducted two kinds of activities which are:

1. Business activities.

BMTs, according to the concept of Baitul Tamwil, as a business institution, have a role in conducting business activities in order to gain some profit. BMTs are also allowed to act as a financial institution which offers finance and savings products, beside conducting business activities in the real economic sector. The business activities that are regularly conducted by BMTs are:

- a. Collection of funds. The sources of funds for BMTs consist of society funds, savings accounts, term deposits, and deposits through collaboration with other

institutions. Thereby, the depositors get their profits/returns as per a mechanism that has been programmed by BMT.

- b. Provide finance to its members in accordance with the eligibility assessment conducted by a BMT manager, in consultation with the relevant members.
- c. Manage savings and financing businesses in a professional manner, so that the activities of BMT can generate profits that can be accounted.
- d. Develop a business activity in the real sector which aims to make a profit, and will support the business of its members.

2. Social activities

BMTs, according to the concept of Baitul Maal, have a role as a social institution, to conduct social activities in serving the society. Besides managing the funds of Zakah, Infaq, and Sadaqah, BMTs also conducted social activities as mentioned below:

- a. Provide assistance in the form of loans to nonproductive activities based on the concept of benevolence loans (*Qardul Hasan*).
- b. Provide funding for setting up a new business which is given to members who are very poor and desire to start work.
- c. Provide education and business guidance to its members.
- d. Provide moral education and counseling, as well as improve the welfare of its members according to a systematic program.

4.6 Operational Principle of Baitul Maal Wat Tamwil (BMT)

BMT, as an Islamic micro-financing institution, operates based on the Islamic Law (*Sharia*), so that, overall, their activities, especially in product application, are in keeping with the concept of Islamic banking. There are three principles of Islamic banking which are also applied by BMTs in offering their products.

- a. Principle of profit sharing

This principle regulates the procedure of sharing profits between the owner of funds (*Shahibul Maal*), and the fund manager (*Mudharib*), where BMTs have a role as owners of funds, and small business entrepreneurs are the fund managers

who manage such funds in investments to gain profits or returns. The form of this product is based on the concept of “*Mudharabah*” and “*Musyarakah*”.

b. Principle of selling and purchase by profit margin (mark-up)

This principle regulates the procedure of selling and buying which is implemented by BMT in their products, where BMT will appoint their customer as agent with the authority to purchase goods on behalf of BMT, then the BMT acts as seller who sells goods to the customers with a margin of profit or mark-up price. The form of this product is based on the concept “*Murabaha*” and “*Bai Bithaman Ajil* (BBA)”.

c. Nonprofit Principle

This principle facilitates welfare and social interest without any profit orientation. This consists of grants for small businesses, and for those who really need capital. The borrower of this loan does not need to share their profit with the BMT, but they only pay the actual cost that cannot be avoided in transaction, such as administrative cost. This form is called “*Qardhul Hasan*”.

4.7 Products of Baitul Maal Wat Tamwil (BMT)

BMT offered their product not only in the form of saving and financing but also in production and trading activity which could be develop into large scale of business. Since BMT is considered as cooperative, hence it can operate like cooperative to have own business such cyber café, stationary shop, retail shop and other small business.

BMT raise their fund through funding products such as saving product, contribution from stock holder and another source of funding. This fund distribute into financing products such as Mudharabah financing, Musyarakah financing, Murabaha, financing, and others. Besides that, BMT also have Tabarru’ products for social interest to help a poor people and the service products to enhance their services for a member or customer of BMT.

According to Suhendi (2004), the general products of BMT can be classified into four areas:

1. *Fund-raising products (funding)*

Collecting funds from the public, or customers, in the form of products of the BMT, such as savings products and special, main, and compulsory contribution from stock holders of the BMT.

2. *Distribution of funds product (financing)*

Channeling funds to the public, or customers, in the form of financial products, such as Mudharabah, Musyarakat and Ijarah financing.

3. *Service products*

BMTs offer service products to simplify life for the customers, or public, such as receiving bills relating to electricity payment, telephone bill payment, and such others.

4. *Tabarru' product: ZISWAH (Zakat, Infaq, Sadaqah, Waqaf, and Hibah)*

These are products of the BMT with the special purpose of collecting ZISWAH (*Zakah, Infaq, Sadaqah, Waqaf and Hibah*), to channel them for those beneficiaries who receive this fund.

There are two categories of products of BMT (BMT Mutiara Sakinah Profiles, 2007):

1. Baitul Maal product

This product is formed for social and religious purposes. BMTs receive funds from customers or the public, and channel it for those who are eligible to receive this fund.

- *Fund raising*

These are programs to collect funds from the public, or customers, for giving ZISWAH (*Zakah, Infaq, Sadaqah, Waqaf and Hibah*) to the beneficiaries of this fund.

- *Fund distribution*

These are programs to channel funds to the public, or customers who are in need of finance from the BMT for social and religious purposes. These are:

1) Qardul Hasan financing

BMT gives finance to those small entrepreneurs or poor people that need financial aid from the BMT. This finance is sourced from the Zakat, Infaq, and Sadaqah funds.

2) Religious/social activities

BMT distributes funds for religious and social activities, such as aid during natural disasters, flood victims, and others.

2. Baitul Tamwil

This product is formulated for business and investment activities with the purpose to gain profit. Besides conducting business activities, BMTs also offer other financial products to the public, like savings and finance.

- Fund raising

The programs collect funds from the public, or customers, for investment activities. The objective of this program is to secure sufficient capital for conducting their operations. The products are:

- Stock-holder contributions:

The contribution from the stock holder is the main capital received by BMT to operate their activities before receiving funds from the customer or public. There are three kinds of contributions which are as follows:

- 1) Main contribution from membership

The contribution should be paid at the time of registering as a member of the BMT. This can be said to be the registration fee.

- 2) Special contributions from the membership

Contributions are paid voluntarily after becoming members of the BMT. We can draw this contribution any time.

- 3) Compulsory contribution from the membership

This contribution should be paid in every month after registering as a member of the BMT.

- Savings Mudharaba products

The customers, as the owners of the funds (*Sohibul Maal*), put their money in BMT by using *Mudharabah Mutlaqah* or *Wadi'ah Yad Dhamanah* contract. The products are:

a. Education savings Mudharaba

The savings will be used to finance education. Funds can be drawn for payment of education according to a mutual agreement.

b. Pilgrims and Umroh savings Mudharaba

These savings are intended for those who plan to go on pilgrimage (Hajj) and Umroh. The required funds can be withdrawn one time only before going on pilgrimage and Umroh. This saving uses the concept of *Mudharabah Mutlaqah*.

c. Qurban savings Mudharaba

These savings facilitate performing the worship of Qurban on Eid Adha or Tasyriq days. Funds can be taken or drawn one month before Eid Adha day.

d. Idul Fitri savings Mudharaba

These savings are used for meeting the needs of Eid Fitr. Funds can be taken or drawn one time in years, but one day before Eid Fitr.

e. Walimah savings Mudharaba

These savings will be used for financing Walimah (marriage). Funds can be taken or drawn before wedding receptions.

f. Tour Savings Mudharaba

These savings must be used for the purpose of tourism. Funds can be taken or drawn according to a mutual agreement.

- Fund distribution

These programs are to channel funds to the public or customer for the purpose of gaining profit through these products.

- Financing:

BMTs give finance to the public or customers, to finance their business by using the PLS method, or the profit margin. The products are:

- a. Mudharabah Financing

The agreement between BMT as the owner of the capital (Shahibu Maal), and the customer as a manager of the business (Mudharib) to manage productive business. The profit will be shared based on the sharing ratio that has been agreed upon by both parties.

- b. Musyarakah Financing

This is an agreement between the BMT and their customers in sharing capital on productive business (joint capital). The profits are shared according to the ratio agreed upon by both parties, while the losses are borne by both parties based on the proportion of their capital.

- c. Murabaha Financing

This is a sale contract between BMT and its customers, where BMT buys goods that are requested by a customer, and that those goods will be sold to the customer at cost plus profit. The cost plus profit should be recognized and agreed upon by the customer in an agreement. The customer will then pay for those goods in installments over a period of time.

- d. Ijarah Financing

This is a leasing contract between BMT and a customer of BMT. BMT leases services or goods to a partner after the rental price has been agreed upon to be paid in installments over a period of time.

Huda & Heykal (2010) said that BMT was established with the intention to provide financing for the lower income group in society which cannot be covered by Islamic Banks and Islamic Rural Banks (BPRS). The operating principle of BMT is based on the principle of PLS, leasing (*ijara*), and trust deposits (*wadiah*). However, although BMTs are similar to the Islamic Bank, or it can be said that the BMT is an embryo of the Islamic bank, BMT has its own potential market, the small entrepreneur who cannot afford regular banking services, and small businesses that have psychological barriers when dealing with banks.

In carrying out its business, there are various contracts in the BMT that are similar to the contracts in Islamic Rural Banks (BPRS). The contracts are (Fatwa Collection of DSN-MUI, 2003):

1. Wadiah Savings

It is a savings product. The customer's funds will be managed by BMT for investment. Each customer is entitled to withdraw the funds any time he wants, and is also entitled to bonuses from profits in the use of the customer's fund by the BMT. The magnitude of the bonus is not fixed in advance, but this is precisely where the wisdom of BMT should lie, that although this is nominal, they should always try to be competitive.

2. Mudharabah Savings

This is also a savings product. The customer's funds will be managed by BMT for investment to gain profits. Its profit will be shared with customers based on agreements drawn up in advance. Here, the customer acts as a *Shahibul Mall* and BMT acts as a *Mudharib*.

3. Deposit Mudharabah

This is an investment product. The customer's funds will be managed by BMT for investment to gain profits that can be categorized into two models. These are: (1) *Mudharabah Mutlaqah*, where BMT is free to invest this fund in any sector without any restriction raised by the customer, (2) *Mudharabah Muqayyadah*, where there is a restriction clause for BMT in the investment of the funds.

The operational activities of the BMTs are to supervise the Shariah Supervisory Board (DPS). The primary function of DPS is that of a mentor, giving advice, giving fatwa (Shariah decision) to the officers and managers of BMT on Shariah matters which relate to the application of the product (Ridwan, 2004). Thus, the product issued by BMT should be after obtaining prior approval from the Shariah Supervisory Board (DPS).

CHAPTER FIVE
DATA ANALYSIS AND FINDINGS

5.1 Stages of Study

The purpose of data analysis is to analyze the problems faced by BMTs in Pekanbaru. In order to evaluate the problems, the researcher chose the method of analysis used by Ascarya (2005), who followed three important steps. The first step begins with identifying the problem of BMT that is obtained from literature reviews, in-depth interviews, questionnaires, and the result of forum discussions. The second step measures a priority problem using ratio scale. The third step is a synthesis to identify solutions in order to solve a number of problems.

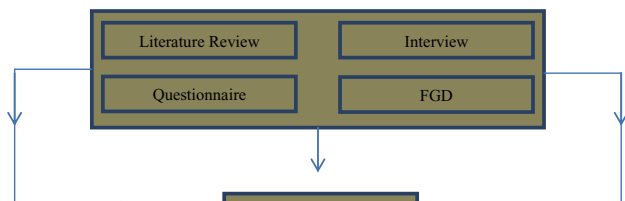


Figure 5.1.0 Stages of study

In the first step of this study, the data is obtained not only from literature reviews, but also from in-depth interviews, questionnaires and Focus Group Discussions (FGD) with some experts in the BMT industry, whether it comes from practitioners, regulators, and academicians. As a result, the researcher found seven respondents relating to this problem. They are:

- | | |
|---|------------------|
| 1. Director BMT Al Amin | : Practitioner A |
| 2. Director BMT Sakinah | : Practitioner B |
| 3. Head of PINBUK Pekanbaru | : Practitioner C |
| 4. Cooperative Department of Pekanbaru | : Regulator A |
| 5. Indonesian Ulama Council of Pekanbaru | : Regulator B |
| 6. Lecture University Islamic of Riau (UIR) | : Academician A |
| 7. Lecture University Islamic of Riau (UIR) | : Academician B |

The above mentioned respondents were selected based on their capability and experience in understanding about the issue in the management of BMTs in Pekanbaru. They are

quite competent in representing the whole population. On the other hand, the client or customer of BMT cannot be selected as a respondent, so as to maintain a level of consistency in the questionnaire. The researcher found it difficult to identify a suitable respondent among the client or customers, who truly understands about the issue in management of BMT in Pekanbaru.

BMTs in Pekanbaru have become an object of this research due to a decrease in their growth. There are eight units of BMT established in Pekanbaru, but only five of these units are active. They are: BMT al Amin, BMT Ittihad, BMT Sakinah, BMT Septa Bina Usaha, and BMT Mika Arta. There are three units of BMT that are non active or passive. They are: BMT al Madani, BMT Bina Insan Cipta, and BMT Munawwarah.

5.2 Identification of Problems

On the basis of analyzing the steps in identification problems of BMT in Pekanbaru through literature reviews, in-depth interviews, questionnaires and FGDs, a number of factors have been identified that caused a few problems for BMTs in Pekanbaru. Those factors can be classified into internal clusters and external clusters, as follow.

5.2.1 Internal Problem of Baitul Maal Wat Tamwil(BMT)

The internal problems of BMT come from within the institution of the BMT itself. These problems are identified through literature reviews, in-depth interviews, questionnaires and FGDs which are from the human resources of BMT, bookkeeping and accounting report, product of BMT, facilities owned by BMT, and capital obtained by BMT. These problems will be described below.

a. Lack of quality of human resources owned by BMT

Practitioners, regulators, and academicians consider human resources as the most crucial element in business activities to achieve a company's goals, because human resources determines the effect and efficiency of a business, particularly in BMT.

BMT in Pekanbaru, deals with a lot of problems in managing its human resources, either from quality or quantity. These circumstances encourage the managers of

BMTs to increase their human resources quality, so that they will be able to achieve the BMT's vision and mission. Actually, this problem also happened in BMTs throughout Indonesia, since most of the BMT managers do not have Islamic financial and basic economic knowledge. Besides that, too close relationships between personnel and managers of BMT in the workplace, make it difficult to do a proper performance appraisal. (Rini, 2011).

Gampito (2008) also stated that most of the BMTs in Indonesia have low productivity in human resources because of low education levels, lack of standards in the recruitment system, unclear career paths, inadequate remuneration and bonus systems, and the lack of efforts to increase human resources capacity through training and education, resulting in lower professionalism of BMT managers.

b. Lack of managerial skills in BMT's employees in bookkeeping and accounting report

Practitioners and academicians found the need for a standardized system of bookkeeping and accounting report which can be understood by all people, especially the financial officer/credit officer and academic user. This is because some of the BMTs in Pekanbaru still use the manual systems, or do not follow the standards of bookkeeping and accounting reports. This problem occurs because of lack of the BMT employee's ability in this field, especially in providing financial statements.

Mustamir and Mawardi (2006) state that the management of BMT still deals with many barriers to BMT managerial abilities, especially in terms of bookkeeping and applied accounting for the administration of BMT. This was experienced by new BMTs which have no specific knowledge in this field.

The system of bookkeeping and accounting reporting is very crucial for all stakeholders who wish to observe the performance of an institution. Therefore, BMT as a financial institution should provide accountable bookkeeping and an accounting reporting system in order to display their performance.

c. Lack of innovation in product marketing of BMT

According to the views of the BMT practitioners, this states that a lack of innovation in marketing products of BMT to the public became a problem in realizing the vision and mission of BMT. BMT, as an Islamic financial institution offering Shariah-based products should make innovations in its marketing schemes in order to attract people to use BMT products, either savings/financing products or service products. This innovation aims at improving the competitiveness of BMT towards other Islamic financial institutions.

Most of the BMTs in Indonesia are unable to develop new innovative products that will improve their competitiveness towards large-scale financial institutions and other micro-financial institutions. This is because generally, a BMT has a lower quality of human resources, limited funds to finance research and marketing development, and has no strategy to overcome these obstacles. The knowledge of BMT managers is also very limited in capturing and dealing with economic problems that occur in society, thus, causing the BMT to be less dynamic and innovative (Gampito, 2008).

d. Lack of IT facilities to support operations in BMT

Today when people are of the view that the entire human activity can be made easier with technology, BMT should realize this as an opportunity, especially to simplify their daily tasks in the office. However, practitioners realized that the technology-based service owned by BMT to deal with all financial problems still cannot be well accommodated, because of the lack of technology-based services presented by BMT.

There are many BMTs which do not have IT facilities to support their operations, or if available, cannot be operated optimally due to limited human resources. This results in BMT not having the ability to access information, both from internal and external agencies, which makes it unable to provide information quickly, completely and accurately, especially relating to the process of planning and decision making (Gampito, 2008).

e. Lack of capital obtained by BMT

Practitioners and academicians assume that capital is an important prerequisite for operating a BMT. Without sufficient capital, BMT will experience great difficulties in meeting customer demands. This difficulty was caused by the lack of public trust to invest their money in BMT, especially in those with low levels of performance. On the other hand, BMT is different from banking institutions; BMT is not guaranteed by *Saving Guarantee Institution* (LPS) that will ensure safety of a client's money if it went bankrupt or into liquidation.

Generally, BMT has a relatively small capital, and it is difficult to raise capital whenever it was required. According to research conducted by Junaidi in Gampito (2008), most of BMTs' assets are around IDR 10–30 million, or 51% of all are in the category of IDR 10–30 million. There are some that have assets of IDR 100 million and more, but the number is only 5% of them all. Capital funding is the foundation stone in operating any financial institution. This means that the limited availability of funds in most BMTs in Indonesia would complicate developmental efforts.

5.2.2 External Problem of Baitul Maal Wat Tamwil(BMT)

The external problem of BMT comes from the external environment of BMT. Its problems are identified through literature reviews, in-depth interviews, questionnaires and FGDs which are from the public and customer's perceptions, government and MUI supervision, and regulation about the existence of BMT. That problem is explained as follows.

a. Lack of public's understanding on the concept of Islamic finance in BMT

Common people, especially small entrepreneurs and businesses, still do not properly understand about the Islamic financial system used by BMT, particularly on Shariah principles used in financial products, such as *Mudaraba*, *Musharaka*, *Ijarah*, and others (Mustamir and Mawardi, 2006). The knowledge gap between customer and the BMT manager can lead to misunderstandings between the two,

and will disrupt the efforts to realize the vision and mission of BMT based on values of the Shariah. (Mu'alim & Abidin, 2005).

As found in the field, the managers and administrators of BMT claimed that almost all the small entrepreneurs and businesses did not understand the Islamic financial system well. This ignorance was caused by the lack of socialization and promotion on BMT products and, thus, their level of use of the BMT service products is still very low.

b. Lack of public's trust towards performance of BMTs

Practitioners and academicians assume that the performance of BMTs could affect public trust toward the BMTs. People will be afraid of saving/investing their money in BMTs that had a bad performance, and vice versa.

It cannot be denied, that there are some weaknesses and problems inside BMT's body, generally involving the lack of human resources, management, facilities, services, capital, and so forth. These weaknesses, in turn, lead to difficulties by increasing public mistrust in the services of BMTs. (Gampito, 2008).

c. Difficult to find honest customers to use funds and financing from BMT

The BMT practitioners agree that it is hard to find honest consumers for the use of funds from the BMT. It is a serious problem faced by the majority of BMTs in Pekanbaru. This problem occurs because the managers find it difficult to recognize good characters of prospective customers.

BMT not only has difficulties in finding skilled and experienced partners, but also honest customers. Many entrepreneurs intend to borrow money from the BMT, but since there is no prior familiarity with them, it is very difficult to predict their honesty. In certain circumstances, entrepreneurs and small businesses often divert capital loans received from the BMT to other businesses outside the *aqad* (transactions) that had been agreed to between them and the manager of the BMT. There are even some small entrepreneurs and businessmen who are dishonest in

reporting their profits per day or week or month to the manager of the BMT. (Mustamir & Mawardi, 2006).

d. Lack of supervision from government and MUI

The absence of a supervisory institution inside the BMT management leads to the lack of standardized guidance and supervision for their operations. This problem makes BMT slow down in development and growth. As we are aware, effective supervision is a control tool for BMT for healthy operation, so that they can develop naturally and be able to gain people's trust (Gampito, 2008).

Moreover, the notion of government, which is represented by the Department of Cooperatives, where BMT was established on the basis of the cooperative law, has caused the Department of Cooperatives to only supervise the activities related to its cooperation, such as at the Annual Budget Meeting (RAT), so that BMT operations related to the financing system and Shariah manners was outside the authority of the Department of Cooperatives. BMT could be established under the law of KSU (*Multi Business of Cooperative*), or savings and credit cooperative.

According to MUI's view, they have no legal basis to supervise the operation of BMTs, because the BMT does not stand under the shadow of MUI but under the Department of Cooperatives. Thus, there is no clear sanction or punishment if there are BMTs which are found to give a financial product with *riba* element. However, MUI may give social sanction against a BMT involved in these distortions. These social sanctions will affect public interest towards the use of the products of BMT.

e. The absence of specific regulations governing BMTs

Problems related to the legal status of BMTs are still a warm debate among practitioners, academicians, and regulators. In the view of regulators represented by the Department of Cooperatives, it is stated that the legal status of BMTs based on cooperatives is sufficient to accommodate all the interests of BMTs. It is because BMT is only a business unit of cooperatives, thus, the cooperative has

freedom to create business units other than BMTs. The practitioners and academics assumed that the existing legal status of BMTs cannot accommodate all the interests of BMT since BMT is a financial institution that should also be regulated and supervised by BI similar to other banking institutions.

BMT growing in Indonesia is not supported by adequate guidance of law and system of supervision. Today, BMT uses Draft Law of Cooperatives which is less suitable with the conditions of BMT as a micro scale intermediary institution. However, BMT is not a banking institution that should be supervised by authorities of BI. This causes the position of BMT as a financial institution to be legally unclear, that there are some people who assume it as a dark bank (Gampito, 2008).

Research was carried out by Kholim (2004), about the existence of BMT and the problems in operations (a study in Central Java Province). From the research, the results indicated that the existence of BMT was not reflected in the existing regulations. The existing of BMT was just in a form of KSM guided by LPSM pioneered by BI in PHBI. If BMT was able to collect funds in large amounts in the process of development, the existence of BMTs could be in the legal institution of KSU or KSP.

5.2.3 Solutions

The alternative solution will be explained about how to resolve the problem faced by BMTs in Pekanbaru. This solution comes from the opinions of practitioners, academicians, and regulators when conducting the identification of problems in BMTs through an in-depth interview, questionnaire and FGDs. Those solutions are given below.

a. Enhance the quality of human resources of BMT through training and education.

Practitioners, academicians and regulators state that the lack of quality of human resources of the BMTs can be resolved by conducting a training session for the employees on the management of BMTs, or impart some education for them to understand about the spirit of the BMTs in Shariah matters through learning

about Islamic economics. Besides that, the employees of BMT must understand how to provide a good administration in bookkeeping and accounting reporting, so as to provide full information about the performance of the BMT.

The objective of imparting training and education to the employees of BMTs is to enhance the quality of human resources of the BMTs which are able to equip the employees to not only understand about the management of BMTs in business matters, but also to understand about Shariah matters. This is because the establishment of BMTs is based on a combination of two institutions, namely social institution and business institution.

b. Enhance the facilities owned by BMTs, especially in using IT facilities, such as software and the Internet

Practitioners have said that facilities are an important matter that should be properly provided because the facility owned by BMTs can support their operations effectively. Especially, in using the IT facility to assist managers or directors of BMTs in making decision, and to assist in providing information which is related to BMT. Therefore, the owners of BMTs should enhance their facilities, especially in using IT facilities such as software and the Internet, as well as improve their employees' skills in the operation of any IT facility.

c. Make innovation in marketing a product of BMT

Practitioners and academicians agree about the need for innovation in Sharia-compliant products which is offered to the public. Development of innovative products can be done through a program of replication products that have been proven to be successful, as well as the need for efforts to improve the marketing techniques for introducing the products of BMT to society.

Innovation in marketing products is a strategic business to attract society to always use the financial services from BMT's product. This must be done by BMT in order to compete with other financial institutions.

d. Need for socialization and promotion about the Islamic economic principle used by BMTs for the public

Many people still not understand about the concept of Islamic economics applied in the products of BMT which make them less interested and attractive to use the products of BMT itself. This happened because of lack of socialization and promotion among the public.

The practitioners and academicians assume that the ignorance of the public about the concept of Islamic economics applied in BMT products becomes all parties' responsibility. The manager of the BMT, academician, government, and MUI, should together conduct an intensive socialization and promotional campaign for the public. There is a need for a proper approach and method in order to give proper understanding to the public, until they have no hesitation in using any product of the BMT.

e. Enhance supervision from government and MUI

Practitioners and academicians proposed that government and MUI should play their roles as supervisors of BMTs intensively, and government and MUI should enhance their supervision towards operational BMTs in Pekanbaru. This is because not all the BMTs in Pekanbaru are conducting their operations based on the true spirit of Sharia. There are also some BMTs in Pekanbaru that are still involved in the interest system, especially relating to financing activities.

On the other hand, for government and MUI, it is impossible to enhance their supervision of BMT if not supported by strong regulations. Government and MUI should have a strong legal role in supervision, as well as being empowered with taking legal action, because the existing regulations are still not enough for government and MUI to fully supervise BMTs. Particularly, in decisions to punish the BMT which runs a business that deviates from its lawfully established role.

f. Build new regulations about BMT

In fact, there is no specific regulation that controls a BMT in accommodating their full interest, while the existing regulations do not reflect what BMT needs. It requires serious debate involving practitioners, academicians, and the regulator.

Therefore, the researcher has suggested proposing to the regulator (government and MUI) and to all parties concerned with the BMT, in order to formulate a new regulation that accommodates all parties' interests, where the government and MUI will have a strong legal role in supervision towards the operation of BMTs. If any BMT does not obey the Shariah manner, such as involving *riba* (interest) in their operation, then MUI and government have a legal role to impose punishment directly on the BMT. And also, with these roles, it will give a boost in trust among the public about the existence of BMTs. The bank, customer, and investor will not be afraid to invest their money in BMT again, whether for a long time or short time.

5.3 Findings

Figure 5.4.1 shows the result of the survey based on the questionnaires and interviews which were evaluated by ANP. Each questionnaire was processed into three super metrics (unweighted super matrix, weighted super matrix and limited matrix) which result in three problems, internal and external, in BMTs in Pekanbaru, together with a solution for each problem.

Furthermore, the result came from the average and mode taken from seven respondents (Ascarya, 2005) average and mode used to measure priority value, and cluster use to measure priority value for each group.

a. Internal Factors Analysis

On the basis of the results of data analysis, it has been found that the problems faced by BMT in Pekanbaru from internal factors are: (0.47) lack of quality of human resources owned by BMTs; (0.19) lack of innovation in marketing products of BMTs; (0.13) lack of managerial skill in bookkeeping and accounting reporting; (0.11) lack of capital owned by BMTs; (0.06) lack of IT facilities owned by BMTs, such as software and the Internet. This can be seen in the figure given below:

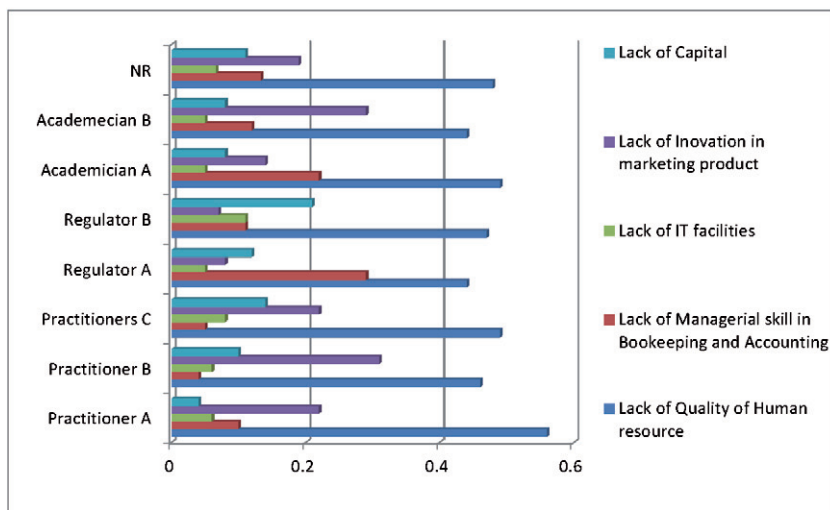


Figure 5.4.1 Findings for Internal Problems of BMTs in Pekanbaru

*NR = mean value of respondents

The above findings show that human resources of BMTs becomes the dominant problem in the internal factor of BMTs in Pekanbaru, with the total mean value (0.47) as the highest value, than other problems in internal factors of BMT in Pekanbaru. The respondents agreed that human resources of BMTs are the most crucial element in business activities to achieve the BMT's goals. Without professionalism from employees or managers of BMTs, the BMT itself cannot operate properly. In fact, most employees or managers of BMTs in Pekanbaru still do not have good knowledge about BMTs, especially on the Shariah matter.

The second priority from the internal problems of BMTs in Pekanbaru is the lack of innovation in the marketing product of BMT in Pekanbaru. This problem has a total mean value (0.19) which stands second highest among other problems in the internal factors of BMTs in Pekanbaru where the respondents suppose that innovation in products will simplify the BMTs' ability in marketing their products to the public. BMT, as an Islamic financial institution offering Shariah-based products should make innovations in its

marketing to attract people to the use of BMT products, either saving/financing products or service products.

The third priority from the internal problems of BMTs in Pekanbaru is the lack of managerial skill in bookkeeping and accounting for their administration and reporting. This problem has a total mean value (0.13) which stands third highest among other problems in the internal factors of BMTs in Pekanbaru. The respondent agreed that this problem occurs because of lack of BMT employees' abilities in this field, especially in providing financial statements. However, bookkeeping and accounting reporting is an essential element to be provided by BMTs as a business institution.

In the fourth priority from the internal problems of BMTs in Pekanbaru is the lack of capital owned by BMTs in Pekanbaru. This problem has a total mean value (0.06) which stands second lowest among other problems in the internal factors of BMTs in Pekanbaru. The respondent states that most BMTs in Pekanbaru do not face serious problems in finding capital or funding, but they find it difficult to channel those funds for investments into their product, because many people still are not interested in using the products of BMTs in Pekanbaru, especially the finance products.

In the fifth priority from the internal problems of BMTs in Pekanbaru is the lack of IT facilities owned by BMTs in Pekanbaru to support their operations, such as software and the Internet. This problem has a total mean value (0.06) which stands the lowest from the other problems in the internal factors of BMTs in Pekanbaru. Respondents state that there are many BMTs in Pekanbaru which do not have IT facilities to support their operations, or if available, cannot be operated optimally due to limited human resources.

Practitioner's Views

On the basis of the views of practitioners found by the researcher, they state that the first priority problems from internal problems of BMTs in Pekanbaru are (0.50) lack of quality human resources owned by BMTs; followed by second priority problems (0.25) lack of innovation in marketing products of BMTs; the third priority problems are (0.09) lack of capital owned by BMTs; the fourth priority problems are (0.06) lack of IT facilities owned by BMT, such as software and the Internet; in the fifth priority problems are

(0.06) lack of managerial skill in bookkeeping and accounting reporting. This is shown in the figure below:

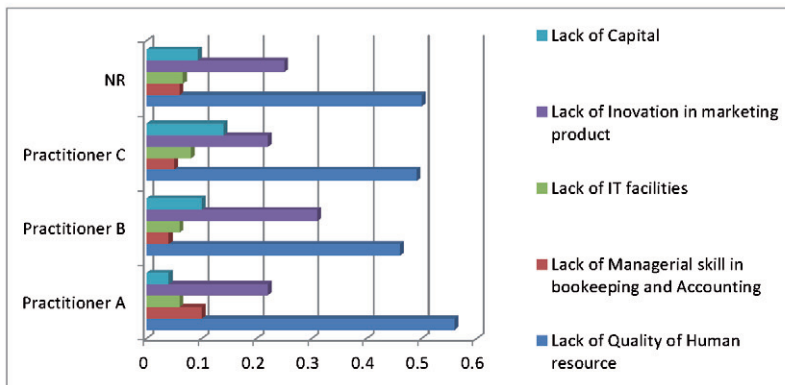


Figure 5.4.2 Findings of Practitioner's Opinion toward Internal Problems of BMTs in Pekanbaru

*NR = mean value of respondents

Practitioner A (director of BMT Al Amin) states that the first priority problems of BMT in Pekanbaru are (0.56) lack of quality of human resources owned by BMT; followed by second priority problems that are (0.22) lack of innovation in marketing products of BMTs; in third priority, problems are (0.10) lack of managerial skill in bookkeeping and accounting reporting; in the fourth priority, problems are (0.06) lack of IT facility owned by BMT such as software and the Internet; in the fifth priority, problems are (0.04) lack of capital owned by BMT.

Practitioner B (director of BMT Sakinah) states that the first priority problems from within the BMT in Pekanbaru are (0.46) lack of quality of human resources owned by BMT; followed by second priority problems that are (0.31) lack of innovation in marketing products of BMT; in third priority, problems are (0.10) lack of capital owned by BMT; in the fourth priority, problems are (0.06) lack of IT facility owned by BMT, such as software and the Internet; in the fifth priority, problems are (0.04) lack of managerial skill in bookkeeping and accounting reporting.

Practitioner C (head of PINBUK Pekanbaru) states that the first priority problems of BMT in Pekanbaru are (0.49) lack of quality of human resources owned by BMT; followed by second priority problems that are (0.22) lack of innovation in marketing products of BMTs; in third priority, problems are (0.14) lack of capital owned by BMT; in the fourth priority, problems are (0.08) lack of IT facility owned by BMT, such as software and the Internet; in the fifth priority, problems are (0.05) lack of managerial skill in bookkeeping and accounting report.

From the above findings, the practitioners state that the dominant problem which influences the development and growth of BMTs in Pekanbaru is human resources of BMTs in Pekanbaru. BMTs in Pekanbaru should have competent employees or managers to manage BMTs effectively and efficiency.

Regulator's Views

On the basis of the views of the regulators, as found by the researcher, they state that the first priority problems from within BMTs in Pekanbaru are (0.45) lack of quality of human resources owned by BMT; followed by second priority problems that are (0.20) lack of managerial skill in bookkeeping and accounting reporting; the third priority problems are (0.165) lack of capital owned by BMTs; the fourth priority problems are (0.08) lack of IT facilities owned by BMT, such as software and the Internet; in the fifth priority problems are (0.05) lack of innovation in marketing products of the BMTs. This can be seen in the figure below:

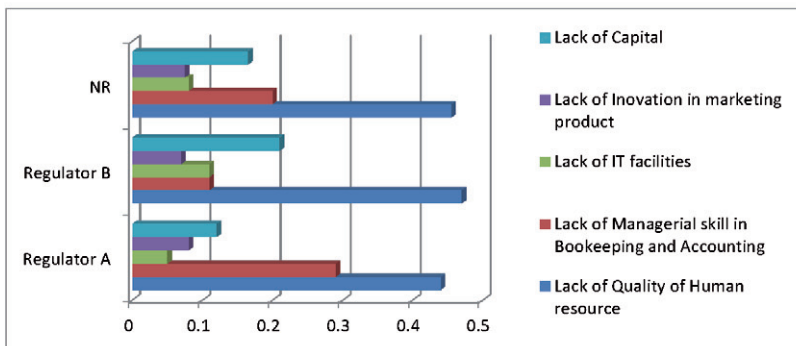


Figure 5.4.3 Findings of Regulator's Opinions toward Internal Problems of BMTs in Pekanbaru

*NR = mean value of respondents

Regulator A (Department of Cooperatives of Pekanbaru) states that the first priority problem from within BMTs in Pekanbaru are (0.44) lack of quality of human resources owned by BMT; followed by second priority problems that are (0.29) lack of managerial skill in bookkeeping and accounting reporting; third priority problems are (0.12) lack of capital owned by BMT; the fourth priority problems are (0.08) lack of innovation in marketing products of BMTs; the fifth priority problems are (0.05) lack of IT facility owned by BMTs, such as software and the Internet.

Regulator B, MUI, Pekanbaru, states that the first priority problems from within BMTs in Pekanbaru are (0.47) lack of quality of human resources owned by BMT; followed by second priority problems that are (0.21) lack of capital owned by BMTs; third priority problems are (0.11) BMT's lack of managerial skill in bookkeeping and accounting reporting; the fourth priority problems are (0.11) lack of IT facilities owned by BMTs, such as software and the Internet; the fifth priority problems are (0.07) lack of innovation in marketing products of BMTs.

From the findings above, it can be seen that the regulator states that the dominant problems which influence the development and growth of BMT in Pekanbaru is human resources of BMTs in Pekanbaru. There are many BMTs in Pekanbaru that do not have competent employees or managers to manage BMTs properly.

Academician's Views

On the basis of the views of academicians as found by the researcher, it is stated that the first priority problems from within BMTs in Pekanbaru are (0.46) lack of quality of human resources owned by BMTs; followed by second priority problems that are (0.21) lack of innovation in marketing products of BMTs; third priority problems are (0.17) lack of managerial skill in bookkeeping and accounting reporting; the fourth priority problems are (0.08) lack of capital owned by BMTs; in the fifth priority problems are (0.05) lack of

IT facilities owned by BMT, such as software and the Internet. This can be seen in the figure given below:

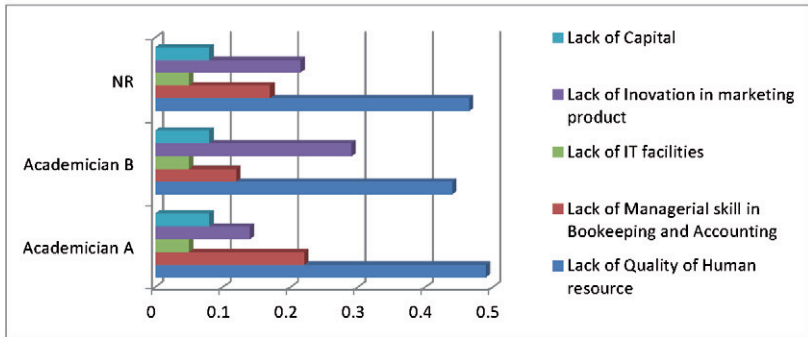


Figure 5.4.4 Findings of Academician's Opinion toward Internal Problems of BMTs in Pekanbaru

*NR = mean value of respondents

Academician A (Lecturer in University Islamic Riau) states that the first priority problem from within BMTs in Pekanbaru are (0.49) lack of quality of human resources owned by BMTs; followed by second priority problems that are (0.22) lack of managerial skill in bookkeeping and accounting reporting; third priority problems are (0.14) lack of innovation in marketing products of BMTs; the fourth priority problems are (0.08) lack of capital owned by BMTs; the fifth priority problems are (0.05) lack of IT facilities owned by BMTs, such as software and the Internet.

Academician B (Lecturer in University Islamic Riau) states that the first priority problem from within BMTs in Pekanbaru are (0.44) lack of quality of human resources owned by BMTs; followed by second priority problems that are (0.29) lack of innovation in marketing products of BMTs; third priority problems are (0.12) lack of managerial skill in bookkeeping and accounting reporting; the fourth priority problems are (0.08) lack of capital owned by BMTs; the fifth priority problems are (0.05) lack of IT facilities owned by BMTs, such as software and the Internet.

From the findings shown above, we can see that the academicians state the dominant problems which influence the development and growth of BMTs in Pekanbaru is human resources of BMTs in Pekanbaru. Many of the employees or managers of BMTs in Pekanbaru still do not have a proper understanding about Islamic economics and BMT concept. BMTs, as an Islamic business and social institution, have applied the concept of Islamic principle into their operations.

b. External Factors Analysis

On the basis of the results of data analysis, it was found that the problems faced by BMTs in Pekanbaru from external factors are (0.36) the absence of specific regulation governing BMTs; (0.18) less of public's trust toward performance of BMTs; (0.19) lack of supervision from government and MUI; (0.16) lack of public's understanding of the concept of Islamic finance in BMT; (0.06) difficulty in finding honest customers to use funds and finances from BMTs. This is shown in the figure below.

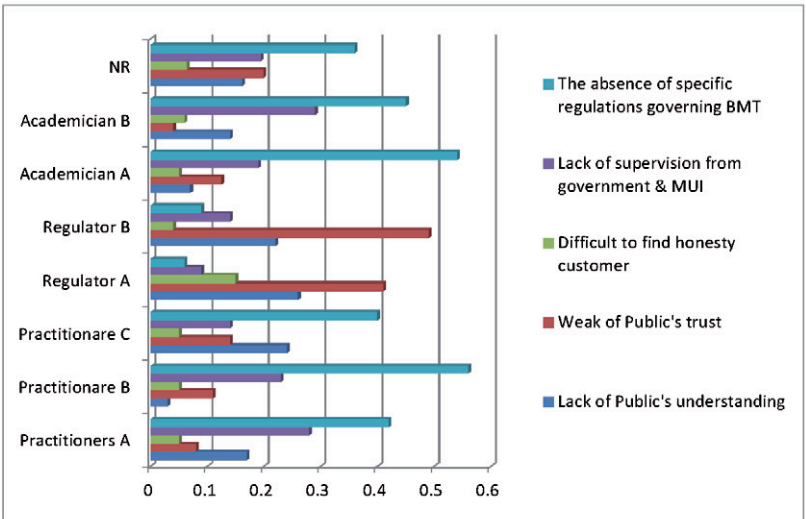


Figure 5.4.5 Findings for External Problems of BMTs in Pekanbaru

*NR = mean value of respondents

From the above findings, it can be seen that the absence of specific regulations governing BMTs in Pekanbaru become the dominant problem from external factors of BMTs in Pekanbaru, with the total mean value (0.36) as the highest value than other problems in external factor of BMTs in Pekanbaru. The respondents state that the problem relating to the legal status of BMTs is still being debated among practitioners, academicians, and the regulator, because there is no specific regulation that governs BMTs.

The second priority arising from external problems of BMTs in Pekanbaru is the drop in public's trust towards the performance of BMTs in Pekanbaru. This problem has a total mean value (0.18) which stands the second highest among other problems in external factors of BMTs in Pekanbaru. The respondents assume that the performance of BMTs could affect public trust towards the BMTs. The people will have less trust towards BMTs that have a bad or low performance.

In the third priority in the external problems of BMTs in Pekanbaru is the lack of supervision from government and MUI as a regulator. This problem has a total mean value (0.19) which stands third highest among other problems in the external factors of BMTs in Pekanbaru. The respondents assume that this is due to lack of supervision by the regulator (government and MUI), because the absence of a specific regulation does not give them full authority to carry out supervision intensively.

In the fourth priority in the external problems of BMTs in Pekanbaru, is the lack of public's understanding of the concept of Islamic finance in BMTs. This problem has a total mean value (0.16) which stands second lowest from other problems in the external factors of BMTs in Pekanbaru. The respondent said that many people, especially small entrepreneurs, still do not understand about the concept of Islamic finance which is followed by BMTs in Pekanbaru. This ignorance was due to a lack of socialization and promotion by the BMT itself.

In the fifth priority in the external problems of BMTs in Pekanbaru, it is difficult to find honest customers to use the funds and finances of BMTs in Pekanbaru. This problem has a total mean value (0.06) which stands the lowest from other problems in the external factors of BMTs in Pekanbaru. The respondent agreed that it was difficult to find honest

and potential customers to receive funding from BMTs. Also, the managers of BMTs found it difficult to identify the character of a prospective customer.

Practitioner's Views

On the basis of the views of practitioners as found by the researcher, they state that the first priority external problems of the BMTs in Pekanbaru are (0.46) the absence of specific regulations governing BMTs; (0.21) lack of supervision from government and MUI; (0.14) lack of public's understanding of the concept of Islamic finance in BMTs; (0.11) drop in public's trust towards performance of BMTs; (0.05) difficulty in finding honest customers to avail funds and financing from BMTs. As can be seen in the figure shown below:

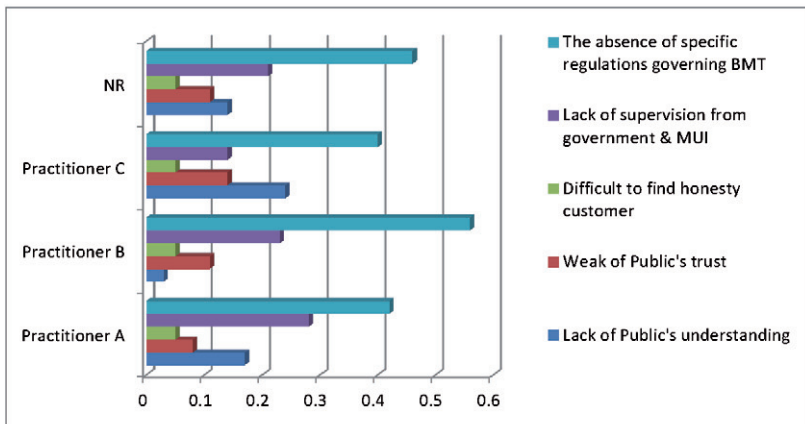


Figure 5.4.6 Findings of Practitioner's Opinion towards External Problems of BMTs in Pekanbaru

*NR = mean value of respondents

Practitioner A (director of BMT Al Amin) states that the first priority problems from outside the BMTs in Pekanbaru are (0.42) the absence of specific regulations governing BMTs; followed by second priority problems that are (0.28) lack of supervision from government and MUI; the third priority problems are (0.17) lack of public's

understanding of the concept of Islamic finance in BMT; the fourth priority problems are (0.08) drop in public's trust towards performance of BMTs; the fifth priority problems are (0.05) difficulty in finding honest customers to avail funding and financing from BMTs.

Practitioner B (director of BMT Sakinah) states that the first priority problems from outside the BMTs in Pekanbaru are (0.56) the absence of specific regulations governing BMTs; followed by second priority problems that are (0.23) lack of supervision from government and MUI; the third priority problems are (0.11) drop in public's trust towards performance of BMTs; the fourth priority problems are (0.05) difficulty in finding honest customers to use the funds and finance from BMTs; the fifth priority problems are (0.03) lack of public's understanding of the concept of Islamic finance in BMTs.

Practitioner C (head of PINBUK, Pekanbaru) states that the first priority problems from outside the BMTs in Pekanbaru are (0.40) the absence of specific regulations governing BMTs, followed by second priority problems that are (0.24) lack of public's understanding of the concept of Islamic finance in BMTs; the third priority problems are (0.14) lack of supervision from government and MUI; the fourth priority problems are (0.14) drop in public's trust towards performance of BMTs; the fifth priority problems are (0.05) difficulty in finding honest customers to avail funds and financing from BMTs.

The above findings show that the practitioners state the dominant problem which influences the development and growth of BMTs in Pekanbaru is the absence of regulation governing BMTs. The practitioner said that the existing legal status of BMTs cannot accommodate all the interest of BMTs. BMT, as a financial institution, should be regulated and supervised under BI similar to other banking institutions.

Regulator's Views

On the basis of the views of the regulators as found by the researcher, they state that the first priority problems from outside the BMTs in Pekanbaru are (0.45) drop in public's trust toward performance of BMT; (0.24) lack of public's understanding of the concept of Islamic finance in BMTs; (0.115) lack of supervision from government and MUI; (0.095) difficulty in finding honest customers to use the funds and finances from BMTs; (0.075)

the absence of specific regulation governing BMTs. This can be seen from the figure given below.

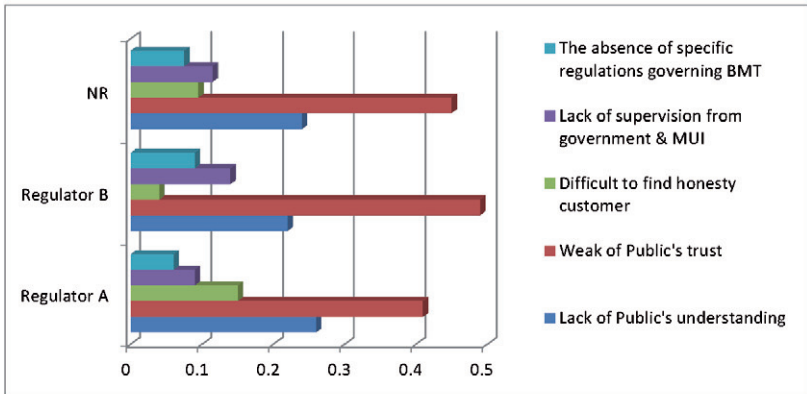


Figure 5.4.7 Findings of Regulator's Opinions Towards External Problems of BMTs in Pekanbaru

*NR = mean value of respondents

Regulator A (Department of Cooperatives, Pekanbaru) states that the first priority problem from outside the BMTs in Pekanbaru are (0.41) drop in public's trust toward performance of BMT; followed by the second priority problems (0.26) lack of public's understanding of the concept of Islamic finance in BMT; the third priority problems are (0.15) difficulty in finding honest customers to use funds and finances from BMTs; the fourth priority problems are (0.09) lack of supervision from government and MUI; the fifth priority problems are (0.06) the absence of specific regulations governing BMTs.

Regulator B, MUI Pekanbaru, states that the first priority problems from outside the BMTs in Pekanbaru are (0.49) drop in public's trust toward performance of BMTs; followed by second priority problems that are (0.22) lack of public's understanding of the concept of Islamic finance in BMTs; the third priority problems are (0.14) lack of supervision from government and MUI; the fourth priority problems are (0.09) the absence of specific regulations governing BMT; the fifth priority problems are (0.04) difficulty in finding honest customers to avail funds and finances from BMT.

From the findings shown above, the regulator states that the dominant problem which influences the development and growth of BMTs in Pekanbaru is the drop in public's trust toward performance of BMTs in Pekanbaru. The regulator said that performance of BMTs is one important factor to be realized by the practitioner or owner of a BMT in Pekanbaru, because the performance of BMTs will affect the public's trust towards the BMT itself. Thus, the people will have less trust towards BMTs with a bad or low performance, and vice versa.

Academician's Views

Based on the views of academicians, and as found by the researcher, they state that the first priority problems from outside the BMTs in Pekanbaru are (0.45) the absence of a specific regulation governing BMTs; (0.24) lack of supervision from government and MUI; (0.105) lack of public's understanding of the concept of Islamic finance in BMTs; (0.08) drop in public's trust toward performance of BMTs; (0.05) difficulty in finding honest customers to avail funding and financing from BMTs. This is shown in the figure below.

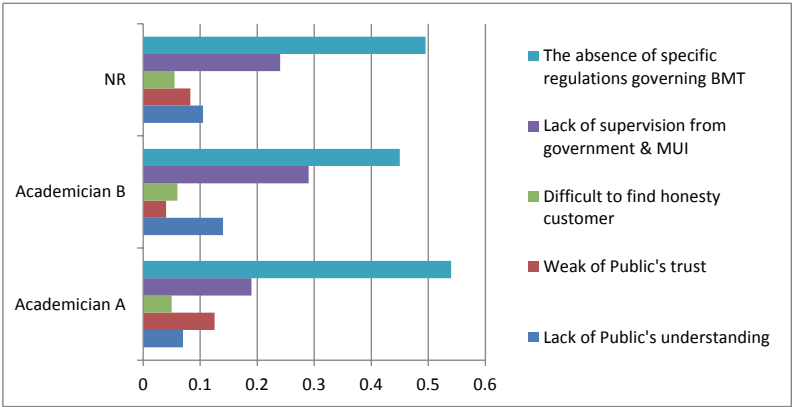


Figure 5.4.8 Findings of Academician's Opinion toward External Problems of BMTs in Pekanbaru

*NR = mean value of respondents

Academician A (lecturer at University Islamic Riau) states that the first priority problem from outside the BMTs in Pekanbaru are (0.54) the absence of specific regulations governing BMTs; followed by second priority problems that are (0.19) lack of supervision from government and MUI; the third priority problems are (0.12) drop in public's trust towards performance of BMTs; the fourth priority problems are (0.07) lack of public's understanding of the concept of Islamic finance in BMTs; the fifth priority problems are (0.05) difficulty in finding honest customers to avail funding and financing from BMTs.

Academician B (lecture in University Islamic Riau) states that the first priority problem from outside the BMTs in Pekanbaru are (0.45) the absence of specific regulations governing BMTs; followed by second priority problems that are (0.29) lack of supervision from government and MUI; the third priority problems are (0.14) lack of public's understanding of the concept of Islamic finance in BMTs; the fourth priority problems are (0.06) difficulty in finding honest customers to avail funding or financing from BMTs; the fifth priority problems are (0.04) drop in public's trust towards performance of BMTs.

From the findings shown above, the academician states the dominant problem which influences the development and growth of BMTs in Pekanbaru is the absence of regulation governing BMTs. The academician also agrees with the opinion of the practitioner that the BMT, as a financial institution, should be regulated and supervised by BI.

c. Solutions

On the basis of the results of data analysis, the solutions to solve the problems of BMTs in Pekanbaru, whether from internal or external factors, are (0.40) enhance the quality of human resources of BMTs through training and education; followed by a second solution of (0.18) building new regulations about BMTs; the third solution is (0.12) for innovation in marketing products of BMTs; the fourth solution is (0.11) enhancing supervision from government and MUI; the fifth solution is (0.10) enhancing the facilities owned by BMTs, especially in using IT facilities, such as software and the Internet; and the last

solution is (0.05) the need for socialization and promotion of BMTs to the public in an intensive way. This is shown in the figure below.

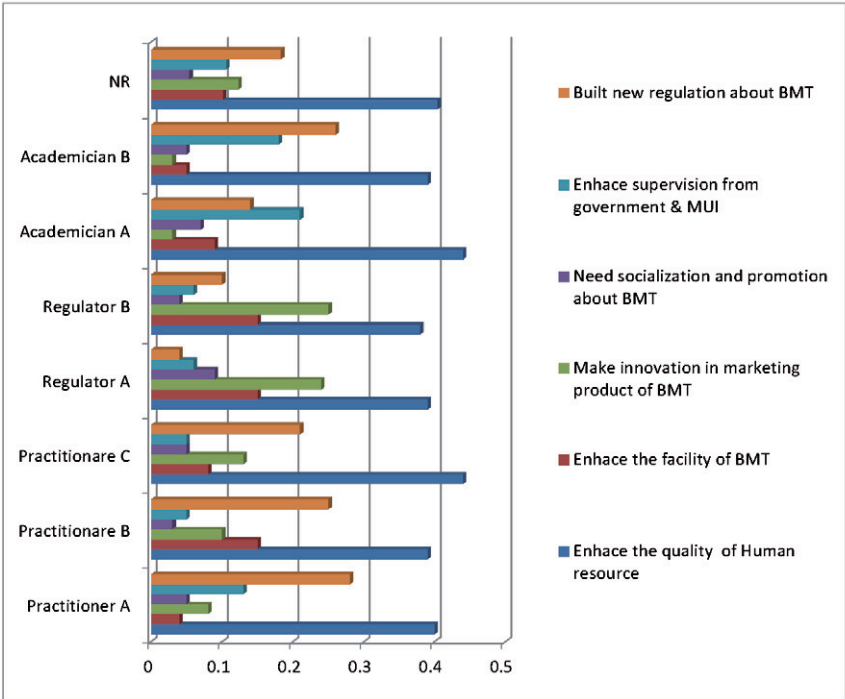


Figure 5.4.9 Findings on Solutions

*NR is mean value of respondents

On the basis of the above findings, we can see that human resources of BMTs become the first priority problem to be resolved. Where the practitioners of BMTs in Pekanbaru should focus and stress on enhancing their quality of human resources which have a total mean value of 0.40 and is the highest value from other solutions. The respondent suggests to the owner of BMTs in Pekanbaru to conduct a training or education program about BMTs for their employees and managers of BMTs. Hopefully, this training or education could improve the quality of human resources owned BMTs in Pekanbaru.

In the second solution for resolving BMT's problems in Pekanbaru, is building new regulations governing BMT specifically. This solution has a total mean value of 0.18 which stands the second highest among other solutions. The respondent suggests to the regulator to come up with specific regulations governing BMTs in Pekanbaru. With a proper regulation, this will allow BMTs in Pekanbaru to undertake activities legally, and protect their business from legal hazards. On the other hand, the regulator will have the authority to hand out punishment to the BMTs which do not follow the rules, especially the Shariah rules.

In the third solution for resolving BMT's problems in Pekanbaru, is that of innovation in marketing the products of BMTs in Pekanbaru. This solution has a total mean value of 0.12 which stands third highest from other solutions. The respondents suggest that innovation in marketing the products of BMTs should be done in order to attract people to always use products that are offered by the BMTs. It needs appropriate techniques in the marketing of its products.

The fourth solution for resolving BMT's problems in Pekanbaru, is to enhance supervision from government and MUI as a regulator. This solution has a total mean value of 0.11 which stands the third lowest among other solutions. The respondents suggest that government and MUI play their role as supervisor of BMTs in Pekanbaru, intensively.

In the fifth solution for resolving BMT's problems in Pekanbaru, is to enhance the facilities owned by the BMTs, especially in using IT facilities, such as software and the Internet. This solution has a total mean value of 0.10 which stands second lowest among the other solutions. The respondent suggests to the practitioner of BMTs, or owners of BMTs in Pekanbaru, to provide IT facilities in order to support their operational efficiency.

In the sixth solution for resolving BMT's problems in Pekanbaru, socialization and promotion of BMTs to the public are intensively required. This solution has a total mean value of 0.05 which stands at the lowest value among other solutions. The respondent suggests to the practitioner, academican, and regulator, to conduct intensive programs in socialization and business promotion, to target the public, so as to popularize the BMTs among the public.

CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS

4.1 Conclusions

According to the discussion and analysis of the problems faced by BMTs in Pekanbaru, the following several conclusions can be drawn:

1. On the basis of the literature obtained, it showed a decrease in the growth rate of BMTs in Indonesia. Particularly in Pekanbaru, there are only five BMTs which are still active, and three others are inactive. Based on the above phenomenon, the researcher concludes that there are still many BMTs in Indonesia dealing with critical conditions and likely to meet with failure. This is caused by some operational problems dealt with by BMT.
2. On the basis of identification of any problem through literature reviews, in-depth interviews, questionnaires and FGDs, it has been found that the problems faced by BMTs in Pekanbaru arising from internal factors are: lack of quality of human resources by BMTs; lack of managerial skill by BMT employees in bookkeeping and accounting reporting; lack of innovation in product marketing of BMT; lack of IT facilities to support operations in BMTs; and lack of capital obtained by BMTs. Additionally, the problems faced by BMTs in Pekanbaru sourced from external factor are: lack of public's understanding of the concept of Islamic financing in BMTs; lack of public's trust in the performance of BMTs; difficulty in finding honest customers to use funds and financing from BMTs; lack of supervision from government and MUI; the absence of specific regulation governing BMTs.
3. Overall, respondents said the problems faced by BMTs in Pekanbaru come from internal and external factors of BMTs themselves. Both factors influence each other and are crucial in running the business activities of BMTs.

4. From within the BMT, the dominant problem faced by BMTs in Pekanbaru is (0.47) the lack of quality of human resources owned by BMTs, followed by a second priority problem which is (0.19) lack of innovation in marketing the products of BMTs. Externally, the dominant problems faced by BMTs in Pekanbaru are (0.36) the absence of specific regulations governing BMTs, followed by a second priority problem which is (0.18) drop in public's trust towards performance of BMTs.
5. The solutions for addressing the above problems with first priority is (0.40) to enhance the quality of human resources of the BMTs through training and education; followed by the second solution which is (0.18) to build new regulations for BMTs; the third solution is (0.12) to innovate methods of marketing products of BMTs; the fourth solution is (0.11) to enhance supervision from government and MUI; the fifth solution is (0.10) to enhance the facilities owned by BMTs, especially in using IT facilities, such as software and the Internet; and the last solution is (0.05) the need for intensive socialization and promotion of BMT among the public.
6. BMT, as an Islamic financial institution has, as one of its objectives, the aim to prevent small entrepreneurs from falling into the clutches of illegal moneylenders. BMT also plays an important role in spreading the spirit of Sharia in society, especially when implementing the value of Islamic economy into their business activities. Practicing *riba*, *gharar* and *maisir* become prohibited in their operations, and should be replaced with the principle of PLS and other principles that are recognized as allowed, based on Shariah views.

4.2 Recommendations

On the basis of the results of these discussions, there are some suggestions that the researcher recommends. Among them are:

1. For practitioners of BMTs in Pekanbaru, they should really pay attention to the quality of the human resources since human resource is an agent of an institution that can achieve the vision or goals of the institution. If BMT has qualified human resources, not only problems within the BMT (internal problems) can be resolved, but also

problems outside the BMT (external problems). They should also realize that innovative and varied products are necessary to serve the needs of low economy people in society, so that the people will continue to be loyal customers because their needs are well accommodated by the products offered by BMT.

3. For the regulators (government and MUI), they should play their maximum role in supporting the operational activities of BMT in serving the lower income group in society through its policies or rules that can accommodate all interests of BMT. Finally, BMT is, hopefully, becoming more competitive, with rapid growth/development.
4. For regulators, practitioners, and academicians, they should make promotional strategies, education, or effective branding to society. So, when the people need financial services, BMT can be of help to them, particularly in preventing people from the illegal moneylenders who burden them with high interest rates.
5. For further research, BMT should make short-term, medium-term, and long-term business strategies, by synergizing with regulators, practitioners, MUI, and academicians for the future development of BMTs in serving the lower income group in society.

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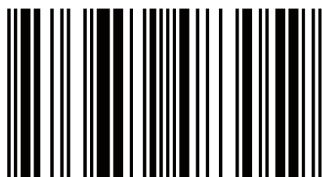
**PENGURUS WILAYAH
NAHDLATUL ULAMA
PROVINSI RIAU**

BMT is a financial institution which is required by small entrepreneurs to finance their business operation. This institution provides financing to help small entrepreneurs whose cannot access financing from banking sector. In addition, the existence of BMT is really helping a lower income group society to avoid them from illegal money lender who may charge them with higher interest. Since its appearance in 1992, BMT has been getting positive response by all members of Indonesian society. Some members of the society take advantage of these golden opportunities through setting up BMT institutions. However, many of them failed and end up with bankruptcy. It is because they faced many problems in their operation. Therefore, this article selected BMT in Pekanbaru as a case study in order to analyze the problems faced by BMT whether these problems due to internal or external factors.



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